

AMENDED IN ASSEMBLY JUNE 11, 2014

AMENDED IN ASSEMBLY MAY 29, 2014

AMENDED IN SENATE APRIL 22, 2014

SENATE BILL

No. 1301

Introduced by Senator DeSaulnier

February 21, 2014

An act to amend Sections 107, 158, 171.08, 911, 1100, 1112.5, 1113, 1151, 1152, 1155, 1201, 2500, 2501, 2502, 2502.01, 2502.03, 2502.04, 2502.05, 2502.06, 2503.1, 2504, 2506, 2507, 2509, 2510, 2510.1, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2600, 2600.5, 2601, 2602, 2603, 2604, 2605, 2700, 2701, 2702, 2800, 2900, 3000, 3001, 3002, 3100, 3200, 3201, 3202, 3203, 3300, 3301, 3302, 3303, 3304, 3305, 3400, 3401, 3500, 3501, 3502, 3503, 5813.5, 7813.5, 9621, and 12504 of, to amend the heading of Division 1.5 (commencing with Section 2500) of Title 1 of, and to add Section 3307 to, the Corporations Code, relating to corporations.

LEGISLATIVE COUNSEL'S DIGEST

SB 1301, as amended, DeSaulnier. Corporate Flexibility Act of 2011: Social Purpose Corporations Act.

The Corporate Flexibility Act of 2011 authorizes and regulates the formation and operation of flexible purpose corporations.

This bill would rename the act as the Social Purpose Corporations Act and rename the type of corporation authorized and regulated under that act as a social purpose corporation.

Under the act, an existing business association organized as a trust under the laws of this state or of a foreign jurisdiction may incorporate under the act upon approval by its board of trustees or similar governing

body and approval by the affirmative vote of a majority of the outstanding voting shares of beneficial interest, and the filing of articles with a certificate.

This bill would revise the approval by the affirmative vote of a majority of the outstanding voting shares of beneficial interest requirement to approval by the affirmative vote of $\frac{2}{3}$ of those shares.

Under the act, the articles of incorporation are required to set forth specified statements, including the name of the corporation.

This bill would revise the statements that are required to be contained in the articles of incorporation. This bill would authorize a corporation formed pursuant to the act before January 1, 2015, to elect to change its status from a flexible purpose corporation to a social purpose corporation by amending its articles of incorporation, as provided. The bill would require that any reference in the act to social purpose corporation be deemed a reference to flexible purpose corporation, for any flexible purpose corporation formed prior to January 1, 2015, that has not amended its articles of incorporation to change its status to a social purpose corporation.

This bill would require, for corporations organized on and after January 1, 2015, a statement that the corporation is organized as a social purpose corporation under the Social Purpose Corporations Act.

Under the act, the director, in discharging his or her duties, may consider those factors, and give weight to those factors, as the director deems relevant, including the short-term and long-term prospects of the corporation, the best interests of the corporation and its shareholders, and the purposes of the corporation as set forth in its articles.

This bill would revise one of the factors and would require the director to consider those factors. This bill would authorize shareholders to maintain a derivative lawsuit to enforce this requirement.

Under the act, certificates representing the shares of a corporation formed under the act are required to contain specified statements.

This bill would revise the statements required to be on those certificates. This bill would provide that the certificates representing shares of a corporation formed pursuant to this act as a “flexible purpose corporation” before January 1, 2015, continue to be valid, and that any reference to a “flexible purpose corporation” or any abbreviation of that term in those certificates is also a reference to “social purpose corporation.”

Under the act, a corporation formed under the act may, by amendment of its articles as specified in the act, convert to a domestic corporation.

This bill would instead provide that a corporation formed under the act may change its status to that of a business corporation. This bill would provide that if the status change is approved, shareholders with dissenting shares may exercise dissenters' rights set forth in the General Corporation Law.

Under the act certain mergers require approval by an affirmative vote of at least $\frac{2}{3}$ of the outstanding shares of each class, or a greater vote if required in the articles, regardless of whether that class is entitled to vote thereon by the provisions of the articles, of the disappearing corporation.

This bill would provide that if the merger is approved, shareholders with dissenting shares may exercise dissenters' rights set forth in the General Corporation Law.

Under the act, a corporation formed under the act may be converted into a domestic other business entity if specified conditions are met. The act requires the approval of a plan of conversion.

This bill would provide that if the plan is approved, shareholders with dissenting shares may exercise dissenters' rights set forth in the General Corporation Law.

Under the act, the principal terms of a reorganization are required to be approved by the outstanding shares of any class of a corporation formed under that act that is a party to a merger or sale-of-assets reorganization if holders of shares of that class receive shares of the surviving or acquiring corporation formed under that act or parent party having different rights, preferences, privileges, or restrictions than those surrendered.

This bill would instead require the principal terms of a reorganization to be approved by the affirmative vote of at least $\frac{2}{3}$ of each class, or a greater vote if required in the articles, of the outstanding shares of any class of a corporation formed under that act that is a party to a merger or sale-of-assets reorganization if holders of shares of that class receive shares of the surviving or acquiring corporation formed under that act or parent party having different rights, preferences, privileges, or restrictions than those surrendered.

Under the act, the board of a corporation formed under the act is required to cause an annual report to be sent to the shareholders, provided with a management discussion and analysis (special purpose MD&A) that contains specified information concerning the corporation's stated purposes. Existing law exempts the annual report and special purpose MD&A requirement for corporations formed under the act with

fewer than 100 holders of record of its shares if specified conditions exist.

This bill would revise the information required to be contained in the special purpose MD&A. This bill would repeal the exemption.

Existing law sets forth procedures for how a corporation formed pursuant to the Corporate Flexibility Act of 2011 can convert or change their status into other types of entities and how other entities can convert or change their status to a corporation formed pursuant to the Corporate Flexibility Act of 2011.

This bill would revise those procedures.

This bill would make other changes to correct erroneous cross-references.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 107 of the Corporations Code is amended
2 to read:

3 107. No corporation, social purpose corporation, association,
4 or individual shall issue or put in circulation, as money, anything
5 but the lawful money of the United States.

6 SEC. 2. Section 158 of the Corporations Code is amended to
7 read:

8 158. (a) “Close corporation” means a corporation, including
9 a close social purpose corporation, whose articles contain, in
10 addition to the provisions required by Section 202, a provision that
11 all of the corporation’s issued shares of all classes shall be held of
12 record by not more than a specified number of persons, not
13 exceeding 35, and a statement “This corporation is a close
14 corporation.”

15 (b) The special provisions referred to in subdivision (a) may be
16 included in the articles by amendment, but if such amendment is
17 adopted after the issuance of shares only by the affirmative vote
18 of all of the issued and outstanding shares of all classes.

19 (c) The special provisions referred to in subdivision (a) may be
20 deleted from the articles by amendment, or the number of
21 shareholders specified may be changed by amendment, but if such
22 amendment is adopted after the issuance of shares only by the
23 affirmative vote of at least two-thirds of each class of the

1 outstanding shares; provided, however, that the articles may
2 provide for a lesser vote, but not less than a majority of the
3 outstanding shares, or may deny a vote to any class, or both.

4 (d) In determining the number of shareholders for the purposes
5 of the provision in the articles authorized by this section, a husband
6 and wife and the personal representative of either shall be counted
7 as one regardless of how shares may be held by either or both of
8 them, a trust or personal representative of a decedent holding shares
9 shall be counted as one regardless of the number of trustees or
10 beneficiaries and a partnership or corporation or business
11 association holding shares shall be counted as one (except that any
12 such trust or entity the primary purpose of which was the
13 acquisition or voting of the shares shall be counted according to
14 the number of beneficial interests therein).

15 (e) A corporation shall cease to be a close corporation upon the
16 filing of an amendment to its articles pursuant to subdivision (c)
17 or if it shall have more than the maximum number of holders of
18 record of its shares specified in its articles as a result of an inter
19 vivos transfer of shares which is not void under subdivision (d) of
20 Section 418, the transfer of shares on distribution by will or
21 pursuant to the laws of descent and distribution, the dissolution of
22 a partnership or corporation or business association or the
23 termination of a trust which holds shares, by court decree upon
24 dissolution of a marriage or otherwise by operation of law.
25 Promptly upon acquiring more than the specified number of holders
26 of record of its shares, a close corporation shall execute and file
27 an amendment to its articles deleting the special provisions referred
28 to in subdivision (a) and deleting any other provisions not
29 permissible for a corporation which is not a close corporation,
30 which amendment shall be promptly approved and filed by the
31 board and need not be approved by the outstanding shares.

32 (f) Nothing contained in this section shall invalidate any
33 agreement among the shareholders to vote for the deletion from
34 the articles of the special provisions referred to in subdivision (a)
35 upon the lapse of a specified period of time or upon the occurrence
36 of a certain event or condition or otherwise.

37 (g) The following sections contain specific references to close
38 corporations: Sections 186, 202, 204, 300, 418, 421, 1111, 1201,
39 1800, and 1904.

1 SEC. 3. Section 171.08 of the Corporations Code is amended
2 to read:

3 171.08. “Social purpose corporation” means any social purpose
4 corporation formed under Division 1.5 (commencing with Section
5 2500).

6 SEC. 4. Section 911 of the Corporations Code is amended to
7 read:

8 911. (a) A corporation may, by amendment of its articles
9 pursuant to this section, change its status to that of a social purpose
10 corporation, nonprofit public benefit corporation, nonprofit mutual
11 benefit corporation, nonprofit religious corporation, or cooperative
12 corporation.

13 (b) The amendment of the articles to change status to a nonprofit
14 corporation shall revise the statement of purpose, delete the
15 authorization for shares and any other provisions relating to
16 authorized or issued shares, make such other changes as may be
17 necessary or desired, and, if any shares have been issued, provide
18 either for the cancellation of those shares or for the change of those
19 shares to memberships of the nonprofit corporation. The
20 amendment of the articles to change status to a cooperative
21 corporation shall revise the statement of purpose, make such other
22 changes as may be necessary or desired, and, if any shares have
23 been issued, provide for the cancellation of those shares or for the
24 change of those shares to memberships of the cooperative
25 corporation, if necessary.

26 (c) If shares have been issued, an amendment to change status
27 to a nonprofit corporation shall be approved by all of the
28 outstanding shares of all classes regardless of limitations or
29 restrictions on the voting rights thereof and an amendment to
30 change status to a cooperative corporation shall be approved by
31 the outstanding shares (Section 152) of each class regardless of
32 limitations or restrictions on the voting rights thereof.

33 (d) In the case of a change of status to a social purpose
34 corporation:

35 (1) The corporation shall modify the name of the corporation,
36 revise the statement of purpose, include the statement required by
37 subparagraph (B) of paragraph (3) of subdivision (b) of Section
38 2602, and make such other conforming changes as may be
39 necessary or desired.

1 (2) The amendment shall be approved by the affirmative vote
2 of at least two-thirds of each class, or a greater vote if required in
3 the articles, of outstanding shares (Section 152) of that changing
4 corporation.

5 (e) If an amendment pursuant to this section is included in a
6 merger agreement, the provisions of this section apply, except that
7 any provision for cancellation or change of shares shall be in the
8 merger agreement rather than in the amendment of the articles.

9 (f) Notwithstanding subdivision (c), if a corporation is a mutual
10 water company within the meaning of Section 2705 of the Public
11 Utilities Code and under the terms of the status change each
12 outstanding share is changed to a membership of a nonprofit mutual
13 benefit corporation, an amendment to change status to a nonprofit
14 mutual benefit corporation shall be approved by the outstanding
15 shares (Section 152) of each class regardless of limitations or
16 restrictions on the voting rights thereof.

17 SEC. 5. Section 1100 of the Corporations Code is amended to
18 read:

19 1100. Any two or more corporations may be merged into one
20 of those corporations. A corporation may merge with one or more
21 domestic corporations (Section 167), social purpose corporations
22 (Section 171.08), foreign corporations (Section 171), or other
23 business entities (Section 174.5) pursuant to this chapter. Mergers
24 in which a foreign corporation but no other business entity is a
25 constituent party are governed by Section 1108, mergers in which
26 a social purpose corporation but no other business entity is a
27 constituent party are governed by Section 1112.5, and mergers in
28 which an other business entity is a constituent party are governed
29 by Section 1113.

30 SEC. 6. Section 1112.5 of the Corporations Code is amended
31 to read:

32 1112.5. If a disappearing corporation in a merger is a
33 corporation governed by this division and the surviving corporation
34 is a social purpose corporation, both of the following shall apply:

35 (a) The merger shall be approved by the affirmative vote of at
36 least two-thirds of each class, or a greater vote if required in the
37 articles, of the outstanding shares (Section 152) of the disappearing
38 corporation, notwithstanding any provision of Chapter 12
39 (commencing with Section 1200).

(b) The shareholders of the disappearing corporation shall have all of the rights under Chapter 13 (commencing with Section 1300) of the shareholders of a corporation involved in a reorganization requiring the approval of its outstanding shares (Section 152), and the disappearing corporation shall have all of the obligations under Chapter 13 (commencing with Section 1300) of a corporation involved in the reorganization.

SEC. 7. Section 1113 of the Corporations Code is amended to read:

1113. (a) Any one or more corporations may merge with one or more other business entities (Section 174.5). One or more domestic corporations (Section 167) not organized under this division and one or more foreign corporations (Section 171) may be parties to the merger. Notwithstanding the provisions of this section, the merger of any number of corporations with any number of other business entities may be effected only if:

(1) In a merger in which a domestic corporation not organized under this division or a domestic other business entity is a party, it is authorized by the laws under which it is organized to effect the merger.

(2) In a merger in which a foreign corporation is a party, it is authorized by the laws under which it is organized to effect the merger.

(3) In a merger in which a foreign other business entity is a party, it is authorized by the laws under which it is organized to effect the merger.

(b) Each corporation and each other party that desires to merge shall approve, and shall be a party to, an agreement of merger. Other persons, including a parent party (Section 1200), may be parties to the agreement of merger. The board of each corporation that desires to merge and, if required, the shareholders shall approve the agreement of merger. The agreement of merger shall be approved on behalf of each party by those persons required to approve the merger by the laws under which it is organized. The agreement of merger shall state:

(1) The terms and conditions of the merger.

(2) The name and place of incorporation or organization of each party to the merger and the identity of the surviving party.

(3) The amendments, if any, subject to Sections 900 and 907, to the articles of the surviving corporation, if applicable, to be

1 effected by the merger. If any amendment changes the name of
2 the surviving corporation, if applicable, the new name may be,
3 subject to subdivision (b) of Section 201, the same as or similar
4 to the name of a disappearing party to the merger.

5 (4) The manner of converting the shares of each constituent
6 corporation into shares, interests, or other securities of the surviving
7 party. If any shares of any constituent corporation are not to be
8 converted solely into shares, interests, or other securities of the
9 surviving party, the agreement of merger shall state (A) the cash,
10 rights, securities, or other property which the holders of those
11 shares are to receive in exchange for the shares, which cash, rights,
12 securities, or other property may be in addition to or in lieu of
13 shares, interests, or other securities of the surviving party, or (B)
14 that the shares are canceled without consideration.

15 (5) Any other details or provisions required by the laws under
16 which any party to the merger is organized, including, if a public
17 benefit corporation or a religious corporation is a party to the
18 merger, Section 6019.1, or, if a mutual benefit corporation is a
19 party to the merger, Section 8019.1, or, if a consumer cooperative
20 corporation is a party to the merger, Section 12540.1, or if an
21 unincorporated association is a party to the merger, Section 18370,
22 or, if a domestic limited partnership is a party to the merger,
23 Section 15911.12, or, if a domestic partnership is a party to the
24 merger, Section 16911, or, if a domestic limited liability company
25 is a party to the merger, Section 17710.12.

26 (6) Any other details or provisions as are desired, including,
27 without limitation, a provision for the payment of cash in lieu of
28 fractional shares or for any other arrangement with respect thereto
29 consistent with the provisions of Section 407.

30 (c) Each share of the same class or series of any constituent
31 corporation (other than the cancellation of shares held by a party
32 to the merger or its parent, or a wholly owned subsidiary of either,
33 in another constituent corporation) shall, unless all shareholders
34 of the class or series consent and except as provided in Section
35 407, be treated equally with respect to any distribution of cash,
36 rights, securities, or other property. Notwithstanding paragraph
37 (4) of subdivision (b), the unredeemable common shares of a
38 constituent corporation may be converted only into unredeemable
39 common shares of a surviving corporation or a parent party
40 (Section 1200) or unredeemable equity securities of a surviving

1 party other than a corporation if another party to the merger or its
2 parent owns, directly or indirectly, prior to the merger shares of
3 that corporation representing more than 50 percent of the voting
4 power of that corporation, unless all of the shareholders of the
5 class consent and except as provided in Section 407.

6 (d) Notwithstanding its prior approval, an agreement of merger
7 may be amended prior to the filing of the agreement of merger or
8 the certificate of merger, as is applicable, if the amendment is
9 approved by the board of each constituent corporation and, if the
10 amendment changes any of the principal terms of the agreement,
11 by the outstanding shares (Section 152), if required by Chapter 12
12 (commencing with Section 1200), in the same manner as the
13 original agreement of merger. If the agreement of merger as so
14 amended and approved is also approved by each of the other parties
15 to the agreement of merger, the agreement of merger as so amended
16 shall then constitute the agreement of merger.

17 (e) The board of a constituent corporation may, in its discretion,
18 abandon a merger, subject to the contractual rights, if any, of third
19 parties, including other parties to the agreement of merger, without
20 further approval by the outstanding shares (Section 152), at any
21 time before the merger is effective.

22 (f) Each constituent corporation shall sign the agreement of
23 merger by its chairperson of the board, president or a vice president,
24 and also by its secretary or an assistant secretary acting on behalf
25 of their respective corporations.

26 (g) (1) If the surviving party is a corporation or a foreign
27 corporation, or if a social purpose corporation (Section 171.08), a
28 public benefit corporation (Section 5060), a mutual benefit
29 corporation (Section 5059), a religious corporation (Section 5061),
30 or a corporation organized under the Consumer Cooperative
31 Corporation Law (Section 12200) is a party to the merger, after
32 required approvals of the merger by each constituent corporation
33 through approval of the board (Section 151) and any approval of
34 the outstanding shares (Section 152) required by Chapter 12
35 (commencing with Section 1200) and by the other parties to the
36 merger, the surviving party shall file a copy of the agreement of
37 merger with an officers' certificate of each constituent domestic
38 and foreign corporation attached stating the total number of
39 outstanding shares or membership interests of each class entitled
40 to vote on the merger (and identifying any other person or persons

1 whose approval is required), that the agreement of merger in the
2 form attached or its principal terms, as required, were approved
3 by that corporation by a vote of a number of shares or membership
4 interests of each class that equaled or exceeded the vote required,
5 specifying each class entitled to vote and the percentage vote
6 required of each class and, if applicable, by that other person or
7 persons whose approval is required, or that the merger agreement
8 was entitled to be and was approved by the board alone (as
9 provided in Section 1201, in the case of corporations subject to
10 that section). If equity securities of a parent party (Section 1200)
11 are to be issued in the merger, the officers' certificate of that
12 controlled party shall state either that no vote of the shareholders
13 of the parent party was required or that the required vote was
14 obtained. In lieu of an officers' certificate, a certificate of merger,
15 on a form prescribed by the Secretary of State, shall be filed for
16 each constituent other business entity. The certificate of merger
17 shall be executed and acknowledged by each domestic constituent
18 limited liability company by all managers of the limited liability
19 company (unless a lesser number is specified in its articles of
20 organization or operating agreement) and by each domestic
21 constituent limited partnership by all general partners (unless a
22 lesser number is provided in its certificate of limited partnership
23 or partnership agreement) and by each domestic constituent general
24 partnership by two partners (unless a lesser number is provided in
25 its partnership agreement) and by each foreign constituent limited
26 liability company by one or more managers and by each foreign
27 constituent general partnership or foreign constituent limited
28 partnership by one or more general partners, and by each
29 constituent reciprocal insurer by the chairperson of the board,
30 president, or vice president, and by the secretary or assistant
31 secretary, or, if a constituent reciprocal insurer has not appointed
32 those officers, by the chairperson of the board, president, or vice
33 president, and by the secretary or assistant secretary of the
34 constituent reciprocal insurer's attorney-in-fact, and by each other
35 party to the merger by those persons required or authorized to
36 execute the certificate of merger by the laws under which that party
37 is organized, specifying for that party the provision of law or other
38 basis for the authority of the signing persons. The certificate of
39 merger shall set forth, if a vote of the shareholders, members,
40 partners, or other holders of interests of the constituent other

1 business entity was required, a statement setting forth the total
2 number of outstanding interests of each class entitled to vote on
3 the merger and that the agreement of merger in the form attached
4 or its principal terms, as required, were approved by a vote of the
5 number of interests of each class that equaled or exceeded the vote
6 required, specifying each class entitled to vote and the percentage
7 vote required of each class, and any other information required to
8 be set forth under the laws under which the constituent other
9 business entity is organized, including, if a domestic limited
10 partnership is a party to the merger, subdivision (a) of Section
11 15911.14, if a domestic partnership is a party to the merger,
12 subdivision (b) of Section 16915, and, if a domestic limited liability
13 company is a party to the merger, subdivision (a) of Section
14 17710.04. The certificate of merger for each constituent foreign
15 other business entity, if any, shall also set forth the statutory or
16 other basis under which that foreign other business entity is
17 authorized by the laws under which it is organized to effect the
18 merger. The merger and any amendment of the articles of the
19 surviving corporation, if applicable, contained in the agreement
20 of merger shall be effective upon filing of the agreement of merger
21 with an officer's certificate of each constituent domestic and
22 foreign corporation and a certificate of merger for each constituent
23 other business entity, subject to subdivision (c) of Section 110 and
24 subject to the provisions of subdivision (j), and the several parties
25 thereto shall be one entity. If a domestic reciprocal insurer
26 organized after 1974 to provide medical malpractice insurance is
27 a party to the merger, the agreement of merger or certificate of
28 merger shall not be filed until there has been filed the certificate
29 issued by the Insurance Commissioner approving the merger
30 pursuant to Section 1555 of the Insurance Code. The Secretary of
31 State may certify a copy of the agreement of merger separate from
32 the officers' certificates and certificates of merger attached thereto.

33 (2) If the surviving entity is an other business entity, and no
34 public benefit corporation (Section 5060), mutual benefit
35 corporation (Section 5059), religious corporation (Section 5061),
36 or corporation organized under the Consumer Cooperative
37 Corporation Law (Section 12200) is a party to the merger, after
38 required approvals of the merger by each constituent corporation
39 through approval of the board (Section 151) and any approval of
40 the outstanding shares (Section 152) required by Chapter 12

(commencing with Section 1200) and by the other parties to the merger, the parties to the merger shall file a certificate of merger in the office of, and on a form prescribed by, the Secretary of State. The certificate of merger shall be executed and acknowledged by each constituent domestic and foreign corporation by its chairperson of the board, president or a vice president, and also by its secretary or an assistant secretary and by each domestic constituent limited liability company by all managers of the limited liability company (unless a lesser number is specified in its articles of organization or operating agreement) and by each domestic constituent limited partnership by all general partners (unless a lesser number is provided in its certificate of limited partnership or partnership agreement) and by each domestic constituent general partnership by two partners (unless a lesser number is provided in its partnership agreement) and by each foreign constituent limited liability company by one or more managers and by each foreign constituent general partnership or foreign constituent limited partnership by one or more general partners, and by each constituent reciprocal insurer by the chairperson of the board, president, or vice president, and by the secretary or assistant secretary, or, if a constituent reciprocal insurer has not appointed those officers, by the chairperson of the board, president, or vice president, and by the secretary or assistant secretary of the constituent reciprocal insurer's attorney-in-fact. The certificate of merger shall be signed by each other party to the merger by those persons required or authorized to execute the certificate of merger by the laws under which that party is organized, specifying for that party the provision of law or other basis for the authority of the signing persons. The certificate of merger shall set forth all of the following:

(A) The name, place of incorporation or organization, and the Secretary of State's file number, if any, of each party to the merger, separately identifying the disappearing parties and the surviving party.

(B) If the approval of the outstanding shares of a constituent corporation was required by Chapter 12 (commencing with Section 1200), a statement setting forth the total number of outstanding shares of each class entitled to vote on the merger and that the principal terms of the agreement of merger were approved by a

1 vote of the number of shares of each class entitled to vote and the
2 percentage vote required of each class.

3 (C) The future effective date or time, not more than 90 days
4 subsequent to the date of filing of the merger, if the merger is not
5 to be effective upon the filing of the certificate of merger with the
6 office of the Secretary of State.

7 (D) A statement, by each party to the merger which is a domestic
8 corporation not organized under this division, a foreign corporation,
9 or an other business entity, of the statutory or other basis under
10 which that party is authorized by the laws under which it is
11 organized to effect the merger.

12 (E) Any other information required to be stated in the certificate
13 of merger by the laws under which each party to the merger is
14 organized, including, if a domestic limited liability company is a
15 party to the merger, subdivision (a) of Section 17710.14, if a
16 domestic partnership is a party to the merger, subdivision (b) of
17 Section 16915, and, if a domestic limited partnership is a party to
18 the merger, subdivision (a) of Section 15911.14.

19 (F) Any other details or provisions that may be desired.

20 Unless a future effective date or time is provided in a certificate
21 of merger, in which event the merger shall be effective at that
22 future effective date or time, a merger shall be effective upon the
23 filing of the certificate of merger in the office of the Secretary of
24 State and the several parties thereto shall be one entity. The
25 surviving other business entity shall keep a copy of the agreement
26 of merger at its principal place of business which, for purposes of
27 this subdivision, shall be the office referred to in Section 17710.13
28 if a domestic limited liability company, at the business address
29 specified in paragraph (5) of subdivision (a) of Section 17710.14
30 if a foreign limited liability company, at the office referred to in
31 subdivision (a) of Section 16403 if a domestic general partnership,
32 at the business address specified in subdivision (f) of Section 16911
33 if a foreign partnership, at the office referred to in subdivision (a)
34 of Section 15901.14 if a domestic limited partnership, or at the
35 business address specified in paragraph (3) of subdivision (a) of
36 Section 15909.02 if a foreign limited partnership. Upon the request
37 of a holder of equity securities of a party to the merger, a person
38 with authority to do so on behalf of the surviving other business
39 entity shall promptly deliver to that holder, a copy of the agreement
40 of merger. A waiver by that holder of the rights provided in the

1 foregoing sentence shall be unenforceable. If a domestic reciprocal
2 insurer organized after 1974 to provide medical malpractice
3 insurance is a party to the merger the agreement of merger or
4 certificate of merger shall not be filed until there has been filed
5 the certificate issued by the Insurance Commissioner approving
6 the merger in accordance with Section 1555 of the Insurance Code.

7 (h) (1) A copy of an agreement of merger certified on or after
8 the effective date by an official having custody thereof has the
9 same force in evidence as the original and, except as against the
10 state, is conclusive evidence of the performance of all conditions
11 precedent to the merger, the existence on the effective date of the
12 surviving party to the merger, and the performance of the
13 conditions necessary to the adoption of any amendment to the
14 articles, if applicable, contained in the agreement of merger.

15 (2) For all purposes for a merger in which the surviving entity
16 is a domestic other business entity and the filing of a certificate of
17 merger is required by paragraph (2) of subdivision (g), a copy of
18 the certificate of merger duly certified by the Secretary of State is
19 conclusive evidence of the merger of the constituent corporations,
20 either by themselves or together with the other parties to the
21 merger, into the surviving other business entity.

22 (i) (1) Upon a merger pursuant to this section, the separate
23 existences of the disappearing parties to the merger cease and the
24 surviving party to the merger shall succeed, without other transfer,
25 to all the rights and property of each of the disappearing parties to
26 the merger and shall be subject to all the debts and liabilities of
27 each in the same manner as if the surviving party to the merger
28 had itself incurred them.

29 (2) All rights of creditors and all liens upon the property of each
30 of the constituent corporations and other parties to the merger shall
31 be preserved unimpaired, provided that those liens upon property
32 of a disappearing party shall be limited to the property affected
33 thereby immediately prior to the time the merger is effective.

34 (3) Any action or proceeding pending by or against any
35 disappearing corporation or disappearing party to the merger may
36 be prosecuted to judgment, which shall bind the surviving party,
37 or the surviving party may be proceeded against or substituted in
38 its place.

39 (4) If a limited partnership or a general partnership is a party to
40 the merger, nothing in this section is intended to affect the liability

1 a general partner of a disappearing limited partnership or general
2 partnership may have in connection with the debts and liabilities
3 of the disappearing limited partnership or general partnership
4 existing prior to the time the merger is effective.

5 (j) (1) The merger of domestic corporations with foreign
6 corporations or foreign other business entities in a merger in which
7 one or more other business entities is a party shall comply with
8 subdivision (a) and this subdivision.

9 (2) If the surviving party is a domestic corporation or domestic
10 other business entity, the merger proceedings with respect to that
11 party and any domestic disappearing corporation shall conform to
12 the provisions of this section. If the surviving party is a foreign
13 corporation or foreign other business entity, then, subject to the
14 requirements of subdivision (c), and of Section 407 and Chapter
15 12 (commencing with Section 1200) and Chapter 13 (commencing
16 with Section 1300), and, if applicable, corresponding provisions
17 of the Nonprofit Corporation Law or the Consumer Cooperative
18 Corporation Law, with respect to any domestic constituent
19 corporations, Article 11 (commencing with Section 17711.01) of
20 Title 2.6 with respect to any domestic constituent limited liability
21 companies, Article 6 (commencing with Section 16601) of Chapter
22 5 of Title 2 with respect to any domestic constituent general
23 partnerships, and Article 11.5 (commencing with Section 15911.20)
24 of Chapter 5.5 of Title 2 with respect to any domestic constituent
25 limited partnerships, the merger proceedings may be in accordance
26 with the laws of the state or place of incorporation or organization
27 of the surviving party.

28 (3) If the surviving party is a domestic corporation or domestic
29 other business entity, the certificate of merger or the agreement of
30 merger with attachments shall be filed as provided in subdivision
31 (g) and thereupon, subject to subdivision (c) of Section 110 or
32 paragraph (2) of subdivision (g), as is applicable, the merger shall
33 be effective as to each domestic constituent corporation and
34 domestic constituent other business entity.

35 (4) If the surviving party is a foreign corporation or foreign
36 other business entity, the merger shall become effective in
37 accordance with the law of the jurisdiction in which the surviving
38 party is organized, but, except as provided in paragraph (5), the
39 merger shall be effective as to any domestic disappearing
40 corporation as of the time of effectiveness in the foreign jurisdiction

1 upon the filing in this state of a copy of the agreement of merger
2 with an officers' certificate of each constituent foreign and
3 domestic corporation and a certificate of merger of each constituent
4 other business entity attached, which officers' certificates and
5 certificates of merger shall conform to the requirements of
6 paragraph (1) of subdivision (g). If one or more domestic other
7 business entities is a disappearing party in a merger pursuant to
8 this subdivision in which a foreign other business entity is the
9 surviving entity, a certificate of merger required by the laws under
10 which that domestic other business entity is organized, including
11 subdivision (a) of Section 15911.14, subdivision (b) of Section
12 16915, or subdivision (a) of Section 17710.14, as is applicable,
13 shall also be filed at the same time as the filing of the agreement
14 of merger.

15 (5) If the date of the filing in this state pursuant to this
16 subdivision is more than six months after the time of the
17 effectiveness in the foreign jurisdiction, or if the powers of a
18 domestic disappearing corporation are suspended at the time of
19 effectiveness in the foreign jurisdiction, the merger shall be
20 effective as to the domestic disappearing corporation as of the date
21 of filing in this state.

22 (6) In a merger described in paragraph (3) or (4), each foreign
23 disappearing corporation that is qualified for the transaction of
24 intrastate business shall by virtue of the filing pursuant to this
25 subdivision, subject to subdivision (c) of Section 110, automatically
26 surrender its right to transact intrastate business in this state. The
27 filing of the agreement of merger or certificate of merger, as is
28 applicable, pursuant to this subdivision, by a disappearing foreign
29 other business entity registered for the transaction of intrastate
30 business in this state shall, by virtue of that filing, subject to
31 subdivision (c) of Section 110, automatically cancels the
32 registration for that foreign other business entity, without the
33 necessity of the filing of a certificate of cancellation.

34 SEC. 8. Section 1151 of the Corporations Code is amended to
35 read:

36 1151. (a) A corporation may be converted into a domestic
37 other business entity, including, but not limited to, a limited
38 liability company or a partnership, pursuant to this chapter if,
39 pursuant to the proposed conversion, (1) each share of the same
40 class or series of the converting corporation shall, unless all the

1 shareholders of the class or series consent, be treated equally with
2 respect to any cash, rights, securities, or other property to be
3 received by, or any obligations or restrictions to be imposed on,
4 the holder of that share, and (2) nonredeemable common shares
5 of the converting corporation shall be converted only into
6 nonredeemable equity securities of the converted entity unless all
7 of the shareholders of the class consent; provided, however, that
8 clause (1) shall not restrict the ability of the shareholders of a
9 converting corporation to appoint one or more managers, if the
10 converted entity is a limited liability company, or one or more
11 general partners, if the converted entity is a limited partnership,
12 in the plan of conversion or in the converted entity's governing
13 documents.

14 (b) Notwithstanding this section, the conversion of a corporation
15 into a domestic other business entity, including, but not limited
16 to, a limited liability company or a partnership, may be effected
17 only if both of the following conditions are complied with:

18 (1) The law under which the converted entity will exist expressly
19 permits the formation of that entity pursuant to a conversion.

20 (2) The corporation complies with any and all other requirements
21 of any other law that applies to conversion to the converted entity.

22 SEC. 9. Section 1152 of the Corporations Code is amended to
23 read:

24 1152. (a) A corporation that desires to convert to a domestic
25 other business entity shall approve a plan of conversion. The plan
26 of conversion shall state all of the following:

27 (1) The terms and conditions of the conversion.

28 (2) The jurisdiction of the organization of the converted entity
29 and of the converting corporation and the name of the converted
30 entity after conversion.

31 (3) The manner of converting the shares of each of the
32 shareholders of the converting corporation into securities of, or
33 interests in, the converted entity.

34 (4) The provisions of the governing documents for the converted
35 entity, including the partnership agreement or limited liability
36 company articles of organization and operating agreement, to
37 which the holders of interests in the converted entity are to be
38 bound.

1 (5) Any other details or provisions that are required by the laws
2 under which the converted entity is organized, or that are desired
3 by the converting corporation.

4 (b) The plan of conversion shall be approved by the board of
5 the converting corporation (Section 151), and the principal terms
6 of the plan of the conversion shall be approved by the outstanding
7 shares (Section 152) of each class of the converting corporation.
8 The approval of the outstanding shares may be given before or
9 after approval by the board. Notwithstanding the foregoing, if a
10 converting corporation is a close corporation, the conversion shall
11 be approved by the affirmative vote of at least two-thirds of each
12 class, or a greater vote if required in the articles, of outstanding
13 shares (Section 152) of that converting corporation; provided,
14 however, that the articles may provide for a lesser vote, but not
15 less than a majority of the outstanding shares of each class.

16 (c) If the corporation is converting into a general or limited
17 partnership or into a limited liability company, then in addition to
18 the approval of the shareholders set forth in subdivision (b), the
19 plan of conversion shall be approved by each shareholder who will
20 become a general partner or manager, as applicable, of the
21 converted entity pursuant to the plan of conversion unless the
22 shareholders have dissenters' rights pursuant to Section 1159 and
23 Chapter 13 (commencing with Section 1300).

24 (d) Upon the effectiveness of the conversion, all shareholders
25 of the converting corporation, except those that exercise dissenters'
26 rights as provided in Section 1159 and Chapter 13 (commencing
27 with Section 1300), shall be deemed parties to any agreement or
28 agreements constituting the governing documents for the converted
29 entity adopted as part of the plan of conversion, irrespective of
30 whether or not a shareholder has executed the plan of conversion
31 or those governing documents for the converted entity. Any
32 adoption of governing documents made pursuant thereto shall be
33 effective at the effective time or date of the conversion.

34 (e) Notwithstanding its prior approval by the board and the
35 outstanding shares or either of them, a plan of conversion may be
36 amended before the conversion takes effect if the amendment is
37 approved by the board and, if it changes any of the principal terms
38 of the plan of conversion, by the shareholders of the converting
39 corporation in the same manner and to the same extent as was
40 required for approval of the original plan of conversion.

1 (f) A plan of conversion may be abandoned by the board of a
2 converting corporation, or by the shareholders of a converting
3 corporation if the abandonment is approved by the outstanding
4 shares, in each case in the same manner as required for approval
5 of the plan of conversion, subject to the contractual rights of third
6 parties, at any time before the conversion is effective.

7 (g) The converted entity shall keep the plan of conversion at
8 (1) the principal place of business of the converted entity if the
9 converted entity is a domestic partnership or (2) at the office at
10 which records are to be kept under Section 15901.11 if the
11 converted entity is a domestic limited partnership or at the office
12 at which records are to be kept under Section 17701.13 if the
13 converted entity is a domestic limited liability company. Upon the
14 request of a shareholder of a converting corporation, the authorized
15 person on behalf of the converted entity shall promptly deliver to
16 the shareholder, at the expense of the converted entity, a copy of
17 the plan of conversion. A waiver by a shareholder of the rights
18 provided in this subdivision shall be unenforceable.

19 SEC. 10. Section 1155 of the Corporations Code is amended
20 to read:

21 1155. (a) To convert a corporation:

22 (1) If the corporation is converting into a domestic limited
23 partnership, a statement of conversion shall be completed on the
24 certificate of limited partnership for the converted entity.

25 (2) If the corporation is converting into a domestic partnership,
26 a statement of conversion shall be completed on the statement of
27 partnership authority for the converted entity, or if no statement
28 of partnership authority is filed then a certificate of conversion
29 shall be filed separately.

30 (3) If the corporation is converting into a domestic limited
31 liability company, a statement of conversion shall be completed
32 on the articles of organization for the converted entity.

33 (b) Any statement or certificate of conversion of a converting
34 corporation shall be executed and acknowledged by those officers
35 of the converting corporation as would be required to sign an
36 officers' certificate (Section 173), and shall set forth all of the
37 following:

38 (1) The name and the Secretary of State's file number of the
39 converting corporation.

1 (2) A statement of the total number of outstanding shares of
2 each class entitled to vote on the conversion, that the principal
3 terms of the plan of conversion were approved by a vote of the
4 number of shares of each class which equaled or exceeded the vote
5 required under Section 1152, specifying each class entitled to vote
6 and the percentage vote required of each class.

7 (3) The name, form, and jurisdiction of organization of the
8 converted entity.

9 (c) For the purposes of this chapter, the certificate of conversion
10 shall be on a form prescribed by the Secretary of State.

11 (d) The filing with the Secretary of State of a statement of
12 conversion on an organizational document or a certificate of
13 conversion as set forth in subdivision (a) shall have the effect of
14 the filing of a certificate of dissolution by the converting
15 corporation and no converting corporation that has made the filing
16 is required to file a certificate of election under Section 1901 or a
17 certificate of dissolution under Section 1905 as a result of that
18 conversion.

19 (e) Upon the effectiveness of a conversion pursuant to this
20 chapter, a converted entity that is a domestic partnership, domestic
21 limited partnership, or domestic limited liability company shall
22 be deemed to have assumed the liability of the converting
23 corporation (1) to prepare and file or cause to be prepared and filed
24 all tax and information returns otherwise required of the converting
25 corporation under the Corporation Tax Law (Part 11 (commencing
26 with Section 23001) of Division 2 of the Revenue and Taxation
27 Code) and (2) to pay any tax liability determined to be due pursuant
28 to that law.

29 SEC. 11. Section 1201 of the Corporations Code is amended
30 to read:

31 1201. (a) The principal terms of a reorganization shall be
32 approved by the outstanding shares (Section 152) of each class of
33 each corporation the approval of whose board is required under
34 Section 1200, except as provided in subdivision (b) and except
35 that (unless otherwise provided in the articles) no approval of any
36 class of outstanding preferred shares of the surviving or acquiring
37 corporation or parent party shall be required if the rights,
38 preferences, privileges, and restrictions granted to or imposed upon
39 that class of shares remain unchanged (subject to the provisions
40 of subdivision (c)). For the purpose of this subdivision, two classes

1 of common shares differing only as to voting rights shall be
2 considered as a single class of shares.

3 (b) No approval of the outstanding shares (Section 152) is
4 required by subdivision (a) in the case of any corporation if that
5 corporation, or its shareholders immediately before the
6 reorganization, or both, shall own (immediately after the
7 reorganization) equity securities, other than any warrant or right
8 to subscribe to or purchase those equity securities, of the surviving
9 or acquiring corporation or a parent party (subdivision (d) of
10 Section 1200) possessing more than five-sixths of the voting power
11 of the surviving or acquiring corporation or parent party. In making
12 the determination of ownership by the shareholders of a
13 corporation, immediately after the reorganization, of equity
14 securities pursuant to the preceding sentence, equity securities
15 which they owned immediately before the reorganization as
16 shareholders of another party to the transaction shall be
17 disregarded. For the purpose of this section only, the voting power
18 of a corporation shall be calculated by assuming the conversion
19 of all equity securities convertible (immediately or at some future
20 time) into shares entitled to vote but not assuming the exercise of
21 any warrant or right to subscribe to or purchase those shares.

22 (c) Notwithstanding subdivision (b), the principal terms of a
23 reorganization shall be approved by the outstanding shares (Section
24 152) of the surviving corporation in a merger reorganization if any
25 amendment is made to its articles that would otherwise require
26 that approval.

27 (d) Notwithstanding subdivision (b), the principal terms of a
28 reorganization shall be approved by the outstanding shares (Section
29 152) of any class of a corporation that is a party to a merger or
30 sale-of-assets reorganization if holders of shares of that class
31 receive shares of the surviving or acquiring corporation or parent
32 party having different rights, preferences, privileges, or restrictions
33 than those surrendered. Shares in a foreign corporation received
34 in exchange for shares in a domestic corporation have different
35 rights, preferences, privileges, and restrictions within the meaning
36 of the preceding sentence.

37 (e) Notwithstanding subdivisions (a) and (b), the principal terms
38 of a reorganization shall be approved by the affirmative vote of at
39 least two-thirds of each class, or a greater vote if required in the
40 articles, of the outstanding shares (Section 152) of any close

1 corporation if the reorganization would result in their receiving
2 shares of a corporation that is not a close corporation. However,
3 the articles may provide for a lesser vote, but not less than a
4 majority of the outstanding shares of each class.

5 (f) Notwithstanding subdivisions (a) and (b), the principal terms
6 of a reorganization shall be approved by at least two-thirds of each
7 class, or a greater vote if required in the articles, of the outstanding
8 shares (Section 152) of a corporation that is a party to a merger
9 reorganization if holders of shares receive shares of a surviving
10 social purpose corporation in the merger.

11 (g) Notwithstanding subdivisions (a) and (b), the principal terms
12 of a reorganization shall be approved by the outstanding shares
13 (Section 152) of any class of a corporation that is a party to a
14 merger reorganization if holders of shares of that class receive
15 interests of a surviving other business entity in the merger.

16 (h) Notwithstanding subdivisions (a) and (b), the principal terms
17 of a reorganization shall be approved by all shareholders of any
18 class or series if, as a result of the reorganization, the holders of
19 that class or series become personally liable for any obligations
20 of a party to the reorganization, unless all holders of that class or
21 series have the dissenters' rights provided in Chapter 13
22 (commencing with Section 1300).

23 (i) Any approval required by this section may be given before
24 or after the approval by the board. Notwithstanding approval
25 required by this section, the board may abandon the proposed
26 reorganization without further action by the shareholders, subject
27 to the contractual rights, if any, of third parties.

28 SEC. 12. The heading of Division 1.5 (commencing with
29 Section 2500) of Title 1 of the Corporations Code is amended to
30 read:

31
32 **DIVISION 1.5. SOCIAL PURPOSE CORPORATIONS ACT**
33

34 SEC. 13. Section 2500 of the Corporations Code is amended
35 to read:

36 2500. This division shall be known and may be cited as the
37 Social Purpose Corporations Act.

38 SEC. 14. Section 2501 of the Corporations Code is amended
39 to read:

2501. Except as otherwise expressly stated, the provisions of Division 1 (commencing with Section 100) shall apply to corporations organized under this division, and references in that division to the terms “close corporation,” “constituent corporation,” “corporation,” “disappearing corporation,” “domestic corporation,” “foreign corporation,” “surviving corporation,” and similar terms shall be read to apply, in the same manner, to include the similar “social purpose corporation.”

SEC. 15. Section 2502 of the Corporations Code is amended to read:

2502. This division applies only to social purpose corporations organized expressly under this division whether organized or existing under this division or amended, merged or converted into a social purpose corporation in accordance with Chapter 9 (commencing with Section 900) of Division 1, Chapter 11 (commencing with Section 1100) of Division 1 or Chapter 11.5 (commencing with Section 1150) of Division 1, including all flexible purpose corporations formed under this division prior to January 1, 2015, and now existing except as provided in paragraph (2) of subdivision (b) of Section 2601 and paragraph (3) of subdivision (b) of Section 2602.

SEC. 16. Section 2502.01 of the Corporations Code is amended to read:

2502.01. Every social purpose corporation organized under the laws of this state or similar foreign social purpose corporation, all of the capital stock of which is beneficially owned by the United States, an agency or instrumentality of the United States or any social purpose corporation or similar foreign social purpose corporation the whole of the capital stock of which is owned by the United States or by an agency or instrumentality of the United States, is conclusively presumed to be an agency and instrumentality of the United States and is entitled to all privileges and immunities to which the holders of all of its stock are entitled as agencies of the United States.

SEC. 17. Section 2502.03 of the Corporations Code is amended to read:

2502.03. A social purpose corporation may be sued in the same manner as a corporation as provided in the Code of Civil Procedure.

SEC. 18. Section 2502.04 of the Corporations Code is amended to read:

1 2502.04. A social purpose corporation formed under this
2 division shall, in respect of its property, as a condition of its
3 existence as a social purpose corporation, be subject, in the same
4 manner as a corporation, to the provisions of the Code of Civil
5 Procedure authorizing the attachment of corporate property.

6 SEC. 19. Section 2502.05 of the Corporations Code is amended
7 to read:

8 2502.05. The fees of the Secretary of State for filing
9 instruments by or on behalf of social purpose corporations shall
10 be the same fees prescribed for corporations in Article 3
11 (commencing with Section 12180) of Chapter 3 of Part 2 of
12 Division 3 of Title 2 of the Government Code.

13 SEC. 20. Section 2502.06 of the Corporations Code is amended
14 to read:

15 2502.06. (a) Provisions of the articles described in paragraph
16 (3) of subdivision (e) of Section 2602 and subdivisions (a) and (b)
17 of Section 2603 may be made dependent upon facts ascertainable
18 outside of the articles, if the manner in which those facts shall
19 operate upon those provisions is clearly and expressly set forth in
20 the articles. Similarly, any of the terms of an agreement of merger
21 pursuant to Section 1101 may be made dependent upon facts
22 ascertainable outside of that agreement, if the manner in which
23 those facts shall operate upon the terms of the agreement is clearly
24 and expressly set forth in the agreement of merger.

25 (b) Notwithstanding subdivision (a), when any provisions or
26 terms of articles or an agreement of merger are made dependent
27 upon facts ascertainable outside of the filed instrument through a
28 reference to an agreement or similar document, the social purpose
29 corporation filing that instrument shall maintain at its principal
30 executive office a copy of that referenced agreement or document
31 and all amendments, and shall provide to its shareholders, in the
32 case of articles, or to shareholders of any constituent corporation
33 or other business entity, in the case of an agreement of merger, a
34 copy of them upon written request and without charge.

35 (c) For the purposes of this section, “referenced agreement”
36 means an agreement or contract to which the social purpose
37 corporation is a party. An amendment or revision of a referenced
38 agreement shall require shareholder approval, in addition to any
39 other required approvals, upon any of the following circumstances:

1 (1) If the amendment or revision of the referenced agreement
2 would result in a material change in the rights, preferences,
3 privileges, or restrictions of a class or series of shares, the
4 amendment or revision shall be approved by the outstanding shares,
5 as defined in Section 152, of that class or series.

6 (2) If the amendment or revision of the referenced agreement
7 would result in a material change in the rights or liabilities of any
8 class or series of shares with respect to the subject matter of
9 paragraph (1), (2), (3), (5), or (9) of subdivision (a) of Section
10 2603, the amendment or revision shall be approved by the
11 outstanding shares, as defined in Section 152, of that class or series.

12 (3) If the amendment or revision of the referenced agreement
13 would result in a material change in the restrictions on transfer or
14 hypothecation of any class or series of shares, the amendment or
15 revision shall be approved by the outstanding shares, as defined
16 in Section 152, of that class or series.

17 (4) If the amendment or revision of the referenced agreement
18 would result in a change of any of the principal terms of an
19 agreement of merger, the amendment or revision shall be approved
20 in the same manner as required by Section 3504 for a change in
21 the principal terms of an agreement of merger.

22 SEC. 21. Section 2503.1 of the Corporations Code is amended
23 to read:

24 2503.1. “Close social purpose corporation” means a social
25 purpose corporation that is also a close corporation.

26 SEC. 22. Section 2504 of the Corporations Code is amended
27 to read:

28 2504. “Constituent social purpose corporation” means a social
29 purpose corporation that is merged with or into one or more
30 corporations or one or more other business entities and includes a
31 surviving social purpose corporation.

32 SEC. 23. Section 2506 of the Corporations Code is amended
33 to read:

34 2506. “Disappearing social purpose corporation” means a
35 constituent social purpose corporation that is not the surviving
36 entity.

37 SEC. 24. Section 2507 of the Corporations Code is amended
38 to read:

39 2507. “Domestic social purpose corporation” means a
40 corporation organized under this division.

1 SEC. 25. Section 2509 of the Corporations Code is amended
2 to read:

3 2509. “Social purpose corporation,” unless otherwise expressly
4 provided, refers only to a corporation organized under this division.

5 SEC. 26. Section 2510 of the Corporations Code is amended
6 to read:

7 2510. “Social purpose corporation subject to the Banking Law”
8 means any of the following:

9 (a) A social purpose corporation that, with the approval of the
10 Commissioner of Financial Institutions, is incorporated for the
11 purpose of engaging in, or that is authorized by the Commissioner
12 of Financial Institutions to engage in, the commercial banking
13 business under the Banking Law (Division 1 (commencing with
14 Section 99) of the Financial Code).

15 (b) Any social purpose corporation that, with the approval of
16 the Commissioner of Financial Institutions, is incorporated for the
17 purpose of engaging in, or that is authorized by the Commissioner
18 of Financial Institutions to engage in, the industrial banking
19 business under the Banking Law (Division 1 (commencing with
20 Section 99) of the Financial Code).

21 (c) Any social purpose corporation, other than a social purpose
22 corporation described in subdivision (d), that, with the approval
23 of the Commissioner of Financial Institutions, is incorporated for
24 the purpose of engaging in, or that is authorized by the
25 Commissioner of Financial Institutions to engage in, the trust
26 business under the Banking Law (Division 1 (commencing with
27 Section 99) of the Financial Code).

28 (d) Any social purpose corporation that is authorized by the
29 Commissioner of Financial Institutions and the Commissioner of
30 Insurance to maintain a title insurance department to engage in
31 title insurance business and a trust department to engage in trust
32 business.

33 (e) Any social purpose corporation that, with the approval of
34 the Commissioner of Financial Institutions, is incorporated for the
35 purpose of engaging in, or that is authorized by the Commissioner
36 of Financial Institutions to engage in, business under Article 1
37 (commencing with Section 3500) of Chapter 19 of Division 1 of
38 the Financial Code.

39 SEC. 27. Section 2510.1 of the Corporations Code is amended
40 to read:

1 2510.1. “Social purpose corporation subject to the Insurance
2 Code as an insurer” means a social purpose corporation that has
3 met the requirements of Sections 201.5, 201.6, and 201.7.

4 SEC. 28. Section 2511 of the Corporations Code is amended
5 to read:

6 2511. “Reorganization” means a merger reorganization, an
7 exchange reorganization, or a sale of assets reorganization.

8 (a) “Merger reorganization” means a merger pursuant to Chapter
9 11 (commencing with Section 1100) of Division 1 and Chapter 8
10 (commencing with Section 3200), of this division, other than a
11 short-form merger.

12 (b) “Exchange reorganization” means the acquisition by one
13 domestic social purpose corporation, foreign social purpose
14 corporation, or other business entity in exchange, in whole or in
15 part, for its equity securities, or the equity securities of a domestic
16 social purpose corporation, a foreign social purpose corporation,
17 or an other business entity that is in control of the acquiring entity,
18 of equity securities of another domestic social purpose corporation,
19 foreign social purpose corporation, or other business entity if,
20 immediately after the acquisition, the acquiring entity has control
21 of the other entity.

22 (c) “Sale-of-assets reorganization” means the acquisition by
23 one domestic social purpose corporation, foreign social purpose
24 corporation, or other business entity in exchange in whole or in
25 part for its equity securities, or the equity securities of a domestic
26 social purpose corporation, a foreign social purpose corporation,
27 or an other business entity that is in control of the acquiring entity,
28 or for its debt securities, or debt securities of a domestic social
29 purpose corporation, foreign social purpose corporation, or other
30 business entity that is in control of the acquiring entity, that are
31 not adequately secured and that have a maturity date in excess of
32 five years after the consummation of the reorganization, or both,
33 of all or substantially all of the assets of another domestic social
34 purpose corporation, foreign social purpose corporation, or other
35 business entity.

36 SEC. 29. Section 2512 of the Corporations Code is amended
37 to read:

38 2512. “Share exchange tender offer” means any acquisition by
39 one social purpose corporation in exchange in whole or in part for
40 its equity securities, or the equity securities of a corporation or a

1 social purpose corporation that is in control of the acquiring social
2 purpose corporation, of shares of another corporation or social
3 purpose corporation, other than an exchange reorganization
4 (subdivision (b) of Section 2511).

5 SEC. 30. Section 2513 of the Corporations Code is amended
6 to read:

7 2513. “Special purpose” means the special purpose set forth
8 in a social purpose corporation’s articles pursuant to subdivision
9 (b) of Section 2602.

10 SEC. 31. Section 2514 of the Corporations Code is amended
11 to read:

12 2514. “Special purpose current report” means the report
13 required of a social purpose corporation pursuant to Section 3501.

14 SEC. 32. Section 2515 of the Corporations Code is amended
15 to read:

16 2515. “Special purpose MD&A” means the management
17 discussion and analysis required of a social purpose corporation
18 pursuant to subdivision (b) of Section 3500.

19 SEC. 33. Section 2516 of the Corporations Code is amended
20 to read:

21 2516. “Special purpose objectives” means those objectives set
22 forth by management and the directors of a social purpose
23 corporation for purposes of measuring the impact of the social
24 purpose corporation’s efforts relating to its special purpose in
25 accordance with Section 3500.

26 SEC. 34. Section 2517 of the Corporations Code is amended
27 to read:

28 2517. “Surviving social purpose corporation” means a social
29 purpose corporation into which one or more other corporations or
30 one or more other business entities is merged.

31 SEC. 35. Section 2600 of the Corporations Code is amended
32 to read:

33 2600. (a) One or more natural persons, partnerships,
34 associations, social purpose corporations, or corporations, domestic
35 or foreign, may form a social purpose corporation under this
36 division by executing and filing articles of incorporation.

37 (b) If initial directors are named in the articles, each director
38 named in the articles shall sign and acknowledge the articles. If
39 initial directors are not named in the articles, the articles shall be

1 signed by one or more incorporators who shall be persons described
2 in subdivision (a).

3 (c) The corporate existence begins upon the filing of the articles
4 and continues perpetually, unless otherwise expressly provided by
5 law or in the articles.

6 SEC. 36. Section 2600.5 of the Corporations Code is amended
7 to read:

8 2600.5. (a) An existing business association organized as a
9 trust under the laws of this state or of a foreign jurisdiction may
10 incorporate under this division upon approval by its board of
11 trustees or similar governing body and approval by the affirmative
12 vote of two-thirds of the outstanding voting shares of beneficial
13 interest, or a greater proportion of the outstanding shares of
14 beneficial interest or the vote of those other classes of shares of
15 beneficial interest as may be specifically required by its declaration
16 of trust or bylaws, and the filing of articles with a certificate
17 attached pursuant to this chapter.

18 (b) In addition to the matters required to be set forth in the
19 articles pursuant to Section 2602, the articles filed pursuant to this
20 section shall state that an existing unincorporated association,
21 stating its name, is being incorporated by the filing of the articles.

22 (c) The articles filed pursuant to this section shall be signed by
23 the president, or any vice president, and the secretary, or any
24 assistant secretary, of the existing association and shall be
25 accompanied by a certificate signed and verified by those officers
26 signing the articles and stating that the incorporation of the
27 association has been approved by the trustees and by the required
28 vote of holders of shares of beneficial interest in accordance with
29 subdivision (a).

30 (d) Upon the filing of articles pursuant to this section, the social
31 purpose corporation shall succeed automatically to all of the rights
32 and property of the association being incorporated and shall be
33 subject to all of its debts and liabilities in the same manner as if
34 the social purpose corporation had itself incurred them. The
35 incumbent trustees of the association shall constitute the initial
36 directors of the social purpose corporation and shall continue in
37 office until the next annual meeting of the shareholders or their
38 earlier death, resignation, or removal. All rights of creditors and
39 all liens upon the property of the association shall be preserved
40 unimpaired. Any action or proceeding pending by or against the

1 association may be prosecuted to judgment, which shall bind the
2 social purpose corporation, or the social purpose corporation may
3 be proceeded against or substituted in its place.

4 (e) The filing for record in the office of the county recorder of
5 any county in this state in which any of the real property of the
6 association is located of a copy of the articles filed pursuant to this
7 section, certified by the Secretary of State, shall evidence record
8 ownership in the social purpose corporation of all interests of the
9 association in and to the real property located in that county.

10 SEC. 37. Section 2601 of the Corporations Code is amended
11 to read:

12 2601. (a) The Secretary of State shall not file articles setting
13 forth a name in which “bank,” “trust,” “trustee,” or related words
14 appear, unless the certificate of approval of the Commissioner of
15 Financial Institutions is attached to the articles. This subdivision
16 does not apply to the articles of any social purpose corporation
17 subject to the Banking Law on which is endorsed the approval of
18 the Commissioner of Financial Institutions.

19 (b) (1)– The Secretary of State shall not file articles that set
20 forth a name that is likely to mislead the public or that is the same
21 as, or resembles so closely as to tend to deceive, the name of a
22 domestic corporation, the name of a domestic social purpose
23 corporation, or the name of a foreign corporation that is authorized
24 to transact intrastate business or has registered its name pursuant
25 to Section 2101, a name that a foreign corporation has assumed
26 under subdivision (b) of Section 2106, a name that will become
27 the record name of a corporation or social purpose corporation or
28 a foreign corporation upon the effective date of a filed corporate
29 instrument where there is a delayed effective date pursuant to
30 subdivision (c) of Section 110 or subdivision (c) of Section 5008,
31 or a name that is under reservation for another corporation or social
32 purpose corporation pursuant to this title, except that a social
33 purpose corporation may adopt a name that is substantially the
34 same as an existing corporation or social purpose corporation,
35 foreign or domestic, which is authorized to transact intrastate
36 business or has registered its name pursuant to Section 2101, upon
37 proof of consent by the domestic or foreign corporation or social
38 purpose corporation and a finding by the Secretary of State that
39 under the circumstances the public is not likely to be misled. The
40 use by a social purpose corporation of a name in violation of this

1 section may be enjoined notwithstanding the filing of its articles
2 by the Secretary of State.

3 (2) A corporation formed pursuant to this division before
4 January 1, 2015, may elect to change its status from a flexible
5 purpose corporation to a social purpose corporation by amending
6 its articles of incorporation to change its name to replace “flexible
7 purpose corporation” with “social purpose corporation” and to
8 replace the term “flexible purpose corporation” with “social
9 purpose corporation” as applicable in any statements contained in
10 the articles. For any flexible purpose corporation formed prior to
11 January 1, 2015, that has not amended its articles of incorporation
12 to change its status to a social purpose corporation, any reference
13 in this division to social purpose corporation shall be deemed a
14 reference to “flexible purpose corporation.”

15 (c) Any applicant may, upon payment of the fee prescribed in
16 the Government Code, obtain from the Secretary of State a
17 certificate of reservation of any name not prohibited by subdivision
18 (b), and upon the issuance of the certificate the name stated in the
19 certificate shall be reserved for a period of 60 days. The Secretary
20 of State shall not, however, issue certificates reserving the same
21 name for two or more consecutive 60-day periods to the same
22 applicant or for the use or benefit of the same person, partnership,
23 firm, corporation, or social purpose corporation. No consecutive
24 reservations shall be made by or for the use or benefit of the same
25 person, partnership, firm, corporation, or social purpose corporation
26 of names so similar as to fall within the prohibitions of subdivision
27 (b).

28 SEC. 38. Section 2602 of the Corporations Code is amended
29 to read:

30 2602. The articles of incorporation shall set forth:

31 (a) The name of the social purpose corporation that shall contain
32 the words “social purpose corporation” or an abbreviation of those
33 words.

34 (b) (1) Either of the following statements, as applicable:

35 (A) “The purpose of this social purpose corporation is to engage
36 in any lawful act or activity for which a social purpose corporation
37 may be organized under Division 1.5 of the California Corporations
38 Code, other than the banking business, the trust company business
39 or the practice of a profession permitted to be incorporated by the
40 California Corporations Code, for the benefit of the overall interests

1 of the social purpose corporation and its shareholders and in
2 furtherance of the following enumerated purposes ____.”

3 (B) “The purpose of this social purpose corporation is to engage
4 in the profession of ____ (with the insertion of a profession
5 permitted to be incorporated by the California Corporations Code)
6 and any other lawful activities, other than the banking or trust
7 company business, not prohibited to a social purpose corporation
8 engaging in that profession by applicable laws and regulations,
9 for the benefit of the overall interests of the social purpose
10 corporation and its shareholders and in furtherance of the following
11 enumerated purposes ____.”

12 (2) A statement that a purpose of the social purpose corporation
13 is to engage in one or more of the following purposes, in addition
14 to the purpose stated pursuant to paragraph (1):

15 (A) One or more charitable or public purpose activities that a
16 nonprofit public benefit corporation is authorized to carry out.

17 (B) The purpose of promoting positive effects of, or minimizing
18 adverse effects of, the social purpose corporation’s activities upon
19 any of the following:

20 (i) The social purpose corporation’s employees, suppliers,
21 customers, and creditors.

22 (ii) The community and society.

23 (iii) The environment.

24 (3) (A) For any corporation organized under this division before
25 January 1, 2015, that has not elected to change its status to a social
26 purpose corporation, a statement that the corporation is organized
27 as a flexible purpose corporation under the Corporate Flexibility
28 Act of 2011. Such a corporation is not required to revise the
29 statements required in paragraphs (1) and (2) to conform to the
30 changes made by the act adding this subparagraph.

31 (B) For any corporation organized under this division on and
32 after January 1, 2015, or that has elected to change its status to a
33 social purpose corporation pursuant to paragraph (2) of subdivision
34 (b) of Section 2601, a statement that the corporation is organized
35 as a social purpose corporation under the Social Purpose
36 Corporations Act.

37 (4) If the social purpose corporation is a social purpose
38 corporation subject to the Banking Law ~~(Division 1 (commencing~~
39 ~~with Section 99) (Division 1.1 (commencing with Section 1000)~~
40 of the Financial Code), the articles shall set forth a statement of

1 purpose that is prescribed by the applicable provision of the
2 Banking Law (~~Division 1 (commencing with Section 99)~~ (*Division*
3 *1.1 (commencing with Section 1000)* of the Financial Code).

4 (5) If the social purpose corporation is a social purpose
5 corporation subject to the Insurance Code as an insurer, the articles
6 shall additionally state that the business of the social purpose
7 corporation is to be an insurer.

8 (6) If the social purpose corporation is intended to be a
9 professional corporation within the meaning of the Moscone-Knox
10 Professional Corporation Act (Part 4 (commencing with Section
11 13400) of Division 3), the articles shall additionally contain the
12 statement required by Section 13404. The articles shall not set
13 forth any further or additional statement with respect to the
14 purposes or powers of the social purpose corporation, except by
15 way of limitation or except as expressly required by any law of
16 this state, other than this division, or any federal or other statute
17 or regulation, including the Internal Revenue Code and regulations
18 thereunder as a condition of acquiring or maintaining a particular
19 status for tax purposes.

20 (7) If the social purpose corporation is a close social purpose
21 corporation, a statement as required by subdivision (a) of Section
22 158.

23 (c) The name and street address in this state of the social purpose
24 corporation's initial agent for service of process in accordance
25 with subdivision (b) of Section 1502.

26 (d) The initial street address of the corporation.

27 (e) The initial mailing address of the corporation, if different
28 from the initial street address.

29 (f) If the social purpose corporation is authorized to issue only
30 one class of shares, the total number of shares that the social
31 purpose corporation is authorized to issue.

32 (g) If the social purpose corporation is authorized to issue more
33 than one class of shares, or if any class of shares is to have two or
34 more series, the articles shall state:

35 (1) The total number of shares of each class that the social
36 purpose corporation is authorized to issue and the total number of
37 shares of each series that the social purpose corporation is
38 authorized to issue or that the board is authorized to fix the number
39 of shares of any such series.

1 (2) The designation of each class and the designation of each
2 series or that the board may determine the designation of any such
3 series.

4 (3) The rights, preferences, privileges, and restrictions granted
5 to or imposed upon the respective classes or series of shares or the
6 holders thereof, or that the board, within any limits and restrictions
7 stated, may determine or alter the rights, preferences, privileges,
8 and restrictions granted to or imposed upon any wholly unissued
9 class of shares or any wholly unissued series of any class of shares.
10 As to any series the number of shares of which is authorized to be
11 fixed by the board, the articles may also authorize the board, within
12 the limits and restrictions stated in the article or in any resolution
13 or resolutions of the board originally fixing the number of shares
14 constituting any series, to increase or decrease, but not below the
15 number of shares of such series then outstanding, the number of
16 shares of any series subsequent to the issue of shares of that series.
17 If the number of shares of any series shall be so decreased, the
18 shares constituting that decrease shall resume the status which they
19 had prior to the adoption of the resolution originally fixing the
20 number of shares of that series.

21 SEC. 39. Section 2603 of the Corporations Code is amended
22 to read:

23 2603. The articles of incorporation may set forth:

24 (a) Any or all of the following provisions, which shall not be
25 effective unless expressly provided in the articles:

26 (1) Granting, with or without limitations, the power to levy
27 assessments upon the shares or any class of shares.

28 (2) Granting to shareholders preemptive rights to subscribe to
29 any or all issues of shares or securities.

30 (3) Special qualifications of persons who may be shareholders.

31 (4) A provision limiting the duration of the social purpose
32 corporation's existence to a specified date.

33 (5) A provision requiring, for any or all corporate actions, except
34 as provided in Section 303, subdivision (b) of Section 402.5,
35 subdivision (c) of Section 708, and Section 1900, the vote of a
36 larger proportion or of all of the shares of any class or series, or
37 the vote or quorum for taking action of a larger proportion or of
38 all of the directors, than is otherwise required by Division 1
39 (commencing with Section 100) or this division.

(6) So long as consistent with the purpose of the social purpose corporation as set forth in the articles in accordance with subdivision (b) of Section 2602, a provision limiting or restricting the business in which the social purpose corporation may engage or the powers which the social purpose corporation may exercise, or both.

(7) A provision conferring upon the holders of any evidences of indebtedness, issued or to be issued by the social purpose corporation, the right to vote in the election of the directors and on any other matters on which shareholders may vote.

(8) A provision conferring upon shareholders the right to determine the consideration for which shares shall be issued.

(9) A provision requiring the approval of the shareholders (Section 153) or the approval of the outstanding shares (Section 152) for any corporate action, even though not otherwise required by Division 1 (commencing with Section 100) or this division.

(10) Provisions eliminating or limiting the personal liability of a director for monetary damages in an action brought by or in the right of the social purpose corporation for breach of a director's duties to the social purpose corporation and its shareholders, as set forth in Section 2700, subject to the following:

(A) The provision may not eliminate or limit the liability of directors (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) for acts or omissions that a director believes to be contrary to the best interests of the social purpose corporation or its shareholders and its corporate purposes as expressed in its articles, or that involve the absence of good faith on the part of the director, (iii) for any transaction from which a director derived an improper personal benefit, (iv) for acts or omissions that show a reckless disregard for the director's duty to the social purpose corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the social purpose corporation, its shareholders, or its corporate purposes as expressed in its articles, (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the social purpose corporation, its shareholders, or its corporate purposes as expressed in its articles pursuant to Section 2602, or (vi) under Section 310 or 2701.

1 (B) The provision shall not eliminate or limit the liability of a
2 director for any act or omission occurring prior to the date on which
3 the provision becomes effective.

4 (C) The provision shall not eliminate or limit the liability of an
5 officer for any act or omission as an officer, notwithstanding that
6 the officer is also a director or that his or her actions, if negligent
7 or improper, have been ratified by the directors.

8 (11) A provision authorizing, whether by bylaw, agreement, or
9 otherwise, the indemnification of agents of the social purpose
10 corporation for breach of duty to the social purpose corporation
11 and its shareholders, provided, however, that the provision may
12 not provide for indemnification of any agent for any acts or
13 omissions or transactions from which a director may not be relieved
14 of liability as described in subparagraphs (A), (B), and (C) of
15 paragraph (10).

16 Notwithstanding this subdivision, bylaws may require, for all
17 or any actions by the board, the affirmative vote of a majority of
18 the authorized number of directors. Nothing contained in this
19 subdivision shall affect the enforceability, as between the parties
20 thereto, of any lawful agreement not otherwise contrary to public
21 policy.

22 (b) Reasonable restrictions upon the right to transfer or
23 hypothecate shares of any class or classes or series, except that no
24 restriction shall be binding with respect to shares issued prior to
25 the adoption of the restriction unless the holders of those shares
26 voted in favor of the restriction.

27 (c) The names and addresses of the persons appointed to act as
28 initial directors.

29 (d) Any other provision, not in conflict with law, for the
30 management of the business and for the conduct of the affairs of
31 the social purpose corporation, including any provision that is
32 required or permitted by this division to be stated in the bylaws.

33 SEC. 40. Section 2604 of the Corporations Code is amended
34 to read:

35 2604. Subject to any limitation contained in the articles, to
36 compliance with any other applicable laws, and to consistency
37 with the special purpose of the social purpose corporation, any
38 social purpose corporation other than a social purpose corporation
39 subject to the Banking Law or a professional social purpose
40 corporation may engage in any business activity. A social purpose

1 corporation subject to the Banking Law or a professional social
2 purpose corporation may engage in any business activity not
3 prohibited by the respective statutes and regulations to which it is
4 subject.

5 SEC. 41. Section 2605 of the Corporations Code is amended
6 to read:

7 2605. Subject to any limitations contained in the articles, to
8 compliance with other provisions of this division and any other
9 applicable laws, and to consistency with the special purpose of the
10 social purpose corporation, a social purpose corporation shall have
11 all the powers of a natural person in carrying out its business
12 activities, including, without limitation, the power to:

13 (a) Adopt, use, and at will alter a corporate seal. Failure to affix
14 a seal does not affect the validity of any instrument.

15 (b) Adopt, amend, and repeal bylaws.

16 (c) Qualify to do business in any other state, territory,
17 dependency, or foreign country.

18 (d) Subject to the provisions of Section 510, issue, purchase,
19 redeem, receive, take or otherwise acquire, own, hold, sell, lend,
20 exchange, transfer or otherwise dispose of, pledge, use, and
21 otherwise deal in and with its own shares, bonds, debentures, and
22 other securities.

23 (e) Make donations, regardless of specific corporate benefit, for
24 the public welfare or for a community fund, hospital, charitable,
25 educational, scientific, civic, or similar purposes.

26 (f) Pay pensions, and establish and carry out pension,
27 profit-sharing, share bonus, share purchase, share option, savings,
28 thrift, and other retirement, incentive, and benefit plans, trusts, and
29 provisions for any or all of the directors, officers, and employees
30 of the social purpose corporation or any of its subsidiaries or
31 affiliates, and to indemnify and purchase and maintain insurance
32 on behalf of any fiduciary of these plans, trusts, or provisions.

33 (g) Subject to the provisions of Section 315, assume obligations,
34 enter into contracts, including contracts of guaranty or suretyship,
35 incur liabilities, borrow and lend money and otherwise use its
36 credit, and secure any of its obligations, contracts, or liabilities by
37 mortgage, pledge, or other encumbrance of all or any part of its
38 property, franchises, and income.

39 (h) Participate with others in any partnership, joint venture, or
40 other association, transaction, or arrangement of any kind, whether

1 or not that participation involves sharing or delegation of control
2 with or to others.

3 SEC. 42. Section 2700 of the Corporations Code is amended
4 to read:

5 2700. (a) A director shall perform the duties of a director,
6 including duties as a member of any committee of the board upon
7 which the director may serve, in good faith, in a manner the director
8 believes to be in the best interests of the social purpose corporation
9 and its shareholders, and with that care, including reasonable
10 inquiry, as an ordinarily prudent person in a like position would
11 use under similar circumstances.

12 (b) In performing the duties of a director, a director shall be
13 entitled to rely upon information, opinions, reports, or statements,
14 including financial statements and other financial data, in each
15 case prepared or presented by any of the following:

16 (1) An officer or employee of the social purpose corporation
17 whom the director believes to be reliable and competent in the
18 matters presented.

19 (2) Counsel, independent accountants, or other persons as to
20 matters which the director believes to be within that person's
21 professional or expert competence.

22 (3) A committee of the board upon which the director does not
23 serve, as to matters within its designated authority, which
24 committee the director believes to merit confidence, so long as the
25 director acts in good faith, after reasonable inquiry when the need
26 therefor is indicated by the circumstances and without knowledge
27 that would cause that reliance to be unwarranted.

28 (c) In discharging his or her duties, a director shall consider
29 those factors, and give weight to those factors, as the director
30 deems relevant, including the overall prospects of the social
31 purpose corporation, the best interests of the social purpose
32 corporation and its shareholders, and the purposes of the social
33 purpose corporation as set forth in its articles.

34 (d) A person who performs the duties of a director in accordance
35 with subdivisions (a), (b), and (c) shall have no liability based
36 upon any alleged failure to discharge the person's obligations as
37 a director. The liability of a director for monetary damages may
38 be eliminated or limited by a social purpose corporation's articles
39 to the extent provided in paragraph (10) of subdivision (a) of
40 Section 2603.

(e) Notwithstanding any of the purposes set forth in its articles, a social purpose corporation shall not be deemed to hold any of its assets for the benefit of any party other than its shareholders. However, nothing in this division shall be construed as negating existing charitable trust principles or the Attorney General's authority to enforce any charitable trust created.

(f) Nothing in this section, express or implied, is intended to create or grant or shall create or grant any right in or for any person or any cause of action by or for any person, and a director shall not be responsible to any party other than the social purpose corporation and its shareholders.

SEC. 43. Section 2701 of the Corporations Code is amended to read:

2701. (a) Subject to Section 2700, directors of a social purpose corporation who approve any of the following corporate actions shall be jointly and severally liable to the social purpose corporation for the benefit of all of the creditors or shareholders entitled to institute an action under subdivision (c):

(1) The making of any distribution to its shareholders to the extent that it is contrary to the provisions of Sections 500 to 503, inclusive.

(2) The distribution of assets to shareholders after institution of dissolution proceedings of the social purpose corporation, without paying or adequately providing for all known liabilities of the social purpose corporation, excluding any claims not filed by creditors within the time limit set by the court in a notice given to creditors under Chapter 18 (commencing with Section 1800) of Division 1, Chapter 20 (commencing with Section 1900) of Division 1, and Chapter 20 (commencing with Section 2000).

(3) The making of any loan or guaranty contrary to Section 2715.

(b) A director who is present at a meeting of the board, or any committee of the board, at which an action specified in subdivision (a) is taken and who abstains from voting, shall be deemed to have approved the action.

(c) Suit may be brought in the name of the social purpose corporation to enforce the liability as follows:

(1) Under paragraph (1) of subdivision (a) against any or all directors liable, by the persons entitled to sue under subdivision (b) of Section 506.

1 (2) Under paragraph (2) or (3) of subdivision (a) against any or
2 all directors liable, by any one or more creditors of the social
3 purpose corporation whose debts or claims arose prior to the time
4 of any of the corporate actions specified in paragraph (2) or (3) of
5 subdivision (a) and who have not consented to the corporate action,
6 regardless of whether they have reduced their claims to judgment.

7 (3) Under paragraph (3) of subdivision (a) against any or all
8 directors liable, by any one or more holders of shares outstanding
9 at the time of any corporate action specified in paragraph (3) of
10 subdivision (a) who have not consented to the corporate action,
11 without regard to the provisions of Section 2900.

12 (d) The damages recoverable from a director under this section
13 shall be the amount of the illegal distribution, or if the illegal
14 distribution consists of property, the fair market value of that
15 property at the time of the illegal distribution, plus interest thereon
16 from the date of the distribution at the legal rate on judgments until
17 paid, together with all reasonably incurred costs of appraisal or
18 other valuation, if any, of that property or loss suffered by the
19 social purpose corporation as a result of the illegal loan or guaranty,
20 respectively, but not exceeding the liabilities of the social purpose
21 corporation owed to nonconsenting creditors at the time of the
22 violation and the injury suffered by nonconsenting shareholders.

23 (e) Any director sued under this section may implead all other
24 directors liable and may compel contribution, either in that action
25 or in an independent action against directors not joined in that
26 action.

27 (f) Directors liable under this section shall also be entitled to
28 be subrogated to the rights of the social purpose corporation:

29 (1) With respect to paragraph (1) of subdivision (a), against
30 shareholders who received the distribution.

31 (2) With respect to paragraph (2) of subdivision (a), against
32 shareholders who received the distribution of assets.

33 (3) With respect to paragraph (3) of subdivision (a), against the
34 person who received the loan or guaranty.

35 Any director sued under this section may file a cross-complaint
36 against the person or persons who are liable to the director as a
37 result of the subrogation provided for in this subdivision or may
38 proceed against them in an independent action.

39 SEC. 44. Section 2702 of the Corporations Code is amended
40 to read:

1 2702. (a) For the purposes of this section:

2 (1) “Agent” means any person who is or was a director, officer,
3 employee, or other agent of the social purpose corporation, or is
4 or was serving at the request of the social purpose corporation as
5 a director, officer, employee, or agent of another foreign or
6 domestic corporation, partnership, joint venture, trust, or other
7 enterprise, or was a director, officer, employee, or agent of a
8 foreign or domestic corporation which was a predecessor
9 corporation of the social purpose corporation or of another
10 enterprise at the request of the predecessor corporation.

11 (2) “Proceeding” means any threatened, pending, or completed
12 action or proceeding, whether civil, criminal, administrative, or
13 investigative.

14 (3) “Expenses” includes without limitation attorneys’ fees and
15 any expenses of establishing a right to indemnification under
16 subdivision (b).

17 (b) Subject to the standards and restrictions, if any, set forth in
18 its articles or bylaws, and subject to the limitations required by
19 paragraph (11) of subdivision (a) of Section 2603, a social purpose
20 corporation may indemnify and hold harmless any agent or any
21 other person from and against any and all claims and demands
22 whatsoever.

23 (c) Expenses incurred in defending any proceeding may be
24 advanced by the social purpose corporation prior to the final
25 disposition of the proceeding. The provisions of subdivision (a)
26 of Section 315 do not apply to advances made pursuant to this
27 subdivision.

28 (d) A social purpose corporation may purchase and maintain
29 insurance on behalf of any of its agents against any liability
30 asserted against or incurred by the agent in that capacity or arising
31 out of the agent’s status as an agent regardless of whether the social
32 purpose corporation would have the power to indemnify the agent
33 against that liability under this section. The fact that a social
34 purpose corporation owns all or a portion of the shares of the
35 company issuing a policy of insurance shall not render this
36 subdivision inapplicable if either of the following conditions are
37 satisfied:

38 (1) The insurance provided by this subdivision is limited as
39 indemnification is required to be limited by paragraph (11) of
40 subdivision (a) of Section 2603.

1 (2) (A) The company issuing the insurance policy is organized,
2 licensed, and operated in a manner that complies with the insurance
3 laws and regulations applicable to its jurisdiction of organization.

4 (B) The company issuing the policy provides procedures for
5 processing claims that do not permit that company to be subject
6 to the direct control of the social purpose corporation that
7 purchased that policy.

8 (C) The policy issued provides for some manner of risk sharing
9 between the issuer and purchaser of the policy, on one hand, and
10 some unaffiliated person or persons, on the other, such as by
11 providing for more than one unaffiliated owner of the company
12 issuing the policy or by providing that a portion of the coverage
13 furnished will be obtained from some unaffiliated insurer or
14 reinsurer.

15 (e) This section does not apply to any proceeding against any
16 trustee, investment manager, or other fiduciary of an employee
17 benefit plan in that person's capacity as such, even though the
18 person may also be an agent as defined in subdivision (a) of the
19 employer social purpose corporation. A social purpose corporation
20 shall have power to indemnify a trustee, investment manager, or
21 other fiduciary to the extent permitted by subdivision (f) of Section
22 2605.

23 SEC. 45. Section 2800 of the Corporations Code is amended
24 to read:

25 2800. (a) All certificates representing shares of a social purpose
26 corporation shall contain, in addition to any other statements
27 required by this section, the following conspicuous language on
28 the face of the certificate.

29
30 "This entity is a social purpose corporation organized under
31 Division 1.5 of the California Corporations Code. The articles of
32 this corporation state one or more purposes required by law. Refer
33 to the articles on file with the Secretary of State, and the bylaws
34 and any agreements on file with the secretary of the corporation,
35 for further information."

36
37 (b) There shall also appear on the certificate, the initial
38 transaction statement, and written statements, unless stated or
39 summarized under subdivision (a) or (b) of Section 417, the
40 statements required by all of the following, to the extent applicable:

1 (1) The fact that the shares are subject to restrictions upon
2 transfer.

3 (2) If the shares are assessable or are not fully paid, a statement
4 that they are assessable or the statements required by subdivision
5 (d) of Section 409 if they are not fully paid.

6 (3) The fact that the shares are subject to a voting agreement
7 under subdivision (a) of Section 706 or an irrevocable proxy under
8 subdivision (e) of Section 705 or restrictions upon voting rights
9 contractually imposed by the social purpose corporation.

10 (4) The fact that the shares are redeemable.

11 (5) The fact that the shares are convertible and the period for
12 conversion.

13 Statements or references to statements on the face of the
14 certificate, the initial transaction statement, and written statements
15 required by paragraph (1) or (2) shall be conspicuous.

16 (c) Unless stated on the certificate, the initial transaction
17 statement, and written statements as required by subdivision (a),
18 no restriction upon transfer, no right of redemption and no voting
19 agreement under subdivision (a) of Section 706, no irrevocable
20 proxy under subdivision (e) of Section 705, and no voting
21 restriction imposed by the social purpose corporation shall be
22 enforceable against a transferee of the shares without actual
23 knowledge of the restriction, right, agreement, or proxy. With
24 regard only to liability to assessment or for the unpaid portion of
25 the subscription price, unless stated on the certificate as required
26 by subdivision (a), that liability shall not be enforceable against a
27 transferee of the shares. For the purpose of this subdivision,
28 “transferee” includes a purchaser from the social purpose
29 corporation.

30 (d) All certificates representing shares of a close social purpose
31 corporation shall contain, in addition to any other statements
32 required by this section, the following conspicuous legend on the
33 face thereof:

34
35 “This social purpose corporation is a close social purpose
36 corporation. The number of holders of record of its shares of all
37 classes cannot exceed ____ (a number not in excess of 35). Any
38 attempted voluntary inter vivos transfer which would violate this
39 requirement is void. Refer to the articles, bylaws, and any

1 agreements on file with the secretary of the social purpose
2 corporation for further restrictions.”

3
4 (e) Any attempted voluntary inter vivos transfer of the shares
5 of a close social purpose corporation that would result in the
6 number of holders of record of its shares exceeding the maximum
7 number specified in its articles is void if the certificate contains
8 the legend required by subdivision (c).

9 (f) Notwithstanding any other subdivision, the certificates
10 representing shares of a corporation formed pursuant to this
11 division as a “flexible purpose corporation” before January 1,
12 2015, shall continue to be valid even if the certificates reference
13 a “flexible purpose corporation.” A corporation formed pursuant
14 to this division before January 1, 2015, may, but is not required
15 to, reissue certificates to replace “flexible purpose corporation”
16 with “social purpose corporation” as applicable. Any reference to
17 a “flexible purpose corporation” or any abbreviation of that term
18 in certificates representing shares of a corporation formed pursuant
19 to this division before January 1, 2015, shall also be a reference
20 to “social purpose corporation.”

21 SEC. 46. Section 2900 of the Corporations Code is amended
22 to read:

23 2900. (a) As used in this section:

24 (1) “Social purpose corporation” includes an unincorporated
25 association.

26 (2) “Board” includes the managing body of an unincorporated
27 association.

28 (3) “Shareholder” includes a member of an unincorporated
29 association.

30 (4) “Shares” includes memberships in an unincorporated
31 association.

32 (b) Shareholders of a social purpose corporation may maintain
33 a derivative lawsuit to enforce the requirements set forth in
34 subdivision (c) of Section 2700.

35 (c) No action may be instituted or maintained in right of any
36 domestic or foreign social purpose corporation under this section
37 by any party other than a shareholder of the social purpose
38 corporation.

39 (d) No action may be instituted or maintained in right of any
40 domestic or foreign social purpose corporation by any holder of

1 shares or of voting trust certificates of the social purpose
2 corporation unless both of the following conditions exist:

3 (1) The plaintiff alleges in the complaint that plaintiff was a
4 shareholder, of record or beneficially, or the holder of voting trust
5 certificates at the time of the transaction or any part thereof of
6 which plaintiff complains or that plaintiff's shares or voting trust
7 certificates thereafter devolved upon plaintiff by operation of law
8 from a holder who was a holder at the time of the transaction or
9 any part thereof complained of. Any shareholder who does not
10 meet these requirements may nevertheless be allowed, in the
11 discretion of the court, to maintain the action on a preliminary
12 showing to and determination by the court, by motion and after a
13 hearing, at which the court shall consider the evidence by affidavit
14 or testimony, as it deems material, of all of the following:

15 (A) There is a strong prima facie case in favor of the claim
16 asserted on behalf of the social purpose corporation.

17 (B) No other similar action has been or is likely to be instituted.

18 (C) The plaintiff acquired the shares before there was disclosure
19 to the public or to the plaintiff of the wrongdoing of which plaintiff
20 complains.

21 (D) Unless the action can be maintained the defendant may
22 retain a gain derived from defendant's willful breach of a fiduciary
23 duty.

24 (E) The requested relief will not result in unjust enrichment of
25 the social purpose corporation or any shareholder of the social
26 purpose corporation.

27 (2) The plaintiff alleges in the complaint with particularity
28 plaintiff's efforts to secure from the board the action as plaintiff
29 desires, or the reasons for not making that effort, and alleges further
30 that plaintiff has either informed the social purpose corporation or
31 the board in writing of the ultimate facts of each cause of action
32 against each defendant or delivered to the social purpose
33 corporation or the board a true copy of the complaint which
34 plaintiff proposes to file.

35 (e) In any action referred to in subdivision (c), at any time within
36 30 days after service of summons upon the social purpose
37 corporation or upon any defendant who is an officer or director of
38 the social purpose corporation, or held that office at the time of
39 the acts complained of, the social purpose corporation or the
40 defendant may move the court for an order, upon notice and

1 hearing, requiring the plaintiff to furnish a bond as hereinafter
2 provided. The motion shall be based upon one or both of the
3 following grounds:

4 (1) There is no reasonable possibility that the prosecution of
5 the cause of action alleged in the complaint against the moving
6 party will benefit the social purpose corporation or its shareholders.

7 (2) The moving party, if other than the social purpose
8 corporation, did not participate in the transaction complained of
9 in any capacity.

10 The court on application of the social purpose corporation or
11 any defendant may, for good cause shown, extend the 30-day
12 period for an additional period or periods not exceeding 60 days.

13 (f) At the hearing upon any motion pursuant to subdivision (d),
14 the court shall consider the evidence, written or oral, by witnesses
15 or affidavit, as may be material to the ground or grounds upon
16 which the motion is based, or to a determination of the probable
17 reasonable expenses, including attorney's fees, of the social
18 purpose corporation and the moving party that will be incurred in
19 the defense of the action. If the court determines, after hearing the
20 evidence adduced by the parties, that the moving party has
21 established a probability in support of any of the grounds upon
22 which the motion is based, the court shall fix the amount of the
23 bond, not to exceed fifty thousand dollars (\$50,000), to be
24 furnished by the plaintiff for reasonable expenses, including
25 attorney's fees, which may be incurred by the moving party and
26 the social purpose corporation in connection with the action,
27 including expenses for which the social purpose corporation may
28 become liable pursuant to Section 2702. A ruling by the court on
29 the motion shall not be a determination of any issue in the action
30 or of the merits thereof. If the court, upon the motion, makes a
31 determination that a bond shall be furnished by the plaintiff as to
32 any one or more defendants, the action shall be dismissed as to
33 the defendant or defendants, unless the bond required by the court
34 has been furnished within such reasonable time as may be fixed
35 by the court.

36 (g) If the plaintiff, either before or after a motion is made
37 pursuant to subdivision (d), or any order or determination pursuant
38 to the motion, furnishes a bond in the aggregate amount of fifty
39 thousand dollars (\$50,000) to secure the reasonable expenses of
40 the parties entitled to make the motion, the plaintiff shall be deemed

1 to have complied with the requirements of this section and with
2 any order for a bond theretofore made, and any motion then
3 pending shall be dismissed and no further or additional bond shall
4 be required.

5 (h) If a motion is filed pursuant to subdivision (d), no pleadings
6 need be filed by the social purpose corporation or any other
7 defendant and the prosecution of the action shall be stayed until
8 10 days after the motion has been disposed of.

9 SEC. 47. Section 3000 of the Corporations Code is amended
10 to read:

11 3000. (a) A proposed amendment to the articles of a social
12 purpose corporation shall be approved by the outstanding shares
13 of a class, regardless of whether that class is entitled to vote thereon
14 by the provisions of the articles, if the amendment would:

15 (1) Increase or decrease the aggregate number of authorized
16 shares of that class, other than an increase as provided in either
17 subdivision (b) of Section 405 or subdivision (b) of Section 902.

18 (2) Effect an exchange, reclassification, or cancellation of all
19 or part of the shares of that class, including a reverse stock split
20 but excluding a stock split.

21 (3) Effect an exchange, or create a right of exchange, of all or
22 part of the shares of another class into the shares of that class.

23 (4) Change the rights, preferences, privileges, or restrictions of
24 the shares of that class.

25 (5) Create a new class of shares having rights, preferences, or
26 privileges prior to the shares of that class, or increase the rights,
27 preferences, or privileges or the number of authorized shares of
28 any class having rights, preferences, or privileges prior to the shares
29 of that class.

30 (6) In the case of preferred shares, divide the shares of any class
31 into series having different rights, preferences, privileges, or
32 restrictions or authorize the board to do so.

33 (7) Cancel or otherwise affect dividends on the shares of that
34 class that have accrued but have not been paid.

35 (b) A proposed amendment shall be approved by an affirmative
36 vote of at least two-thirds of the outstanding shares of each class,
37 or a greater vote if required in the articles, regardless of whether
38 that class is entitled to vote thereon by the provisions of the articles,
39 if the amendment would materially alter any special purpose of
40 the social purpose corporation stated in the articles pursuant to

1 paragraph (2) of subdivision (b) of Section 2602, regardless of
2 whether that purpose, as amended, would comply with the
3 provisions of that paragraph.

4 (c) Different series of the same class shall not constitute different
5 classes for the purpose of voting by classes except when a series
6 is adversely affected by an amendment in a different manner than
7 other shares of the same class.

8 (d) In addition to approval by a class as provided in subdivisions
9 (a) and (b), a proposed amendment shall also be approved by the
10 outstanding voting shares (Section 152).

11 SEC. 48. Section 3001 of the Corporations Code is amended
12 to read:

13 3001. (a) A social purpose corporation may, by amendment
14 of its articles pursuant to this section, change its status to that of
15 a nonprofit public benefit corporation, nonprofit mutual benefit
16 corporation, nonprofit religious corporation, or cooperative
17 corporation.

18 (b) The amendment of the articles to change its status to a
19 nonprofit corporation shall revise the statement of purpose, delete
20 the authorization for shares and any other provisions relating to
21 authorized or issued shares, make other changes as may be
22 necessary or desired, and, if any shares have been issued, provide
23 either for the cancellation of those shares or for the change of those
24 shares to memberships of the nonprofit corporation. The
25 amendment of the articles to change status to a cooperative
26 corporation shall revise the statement of purpose, make other
27 changes as may be necessary or desired, and, if any shares have
28 been issued, provide for the cancellation of those shares or for the
29 change of those shares to memberships of the cooperative
30 corporation, if necessary.

31 (c) If shares have been issued, an amendment to change status
32 to a nonprofit corporation shall be approved by all of the
33 outstanding shares of all classes regardless of limitations or
34 restrictions on their voting rights and an amendment to change
35 status to a cooperative corporation shall be approved by the
36 outstanding shares of each class regardless of limitations or
37 restrictions on their voting rights.

38 (d) If an amendment pursuant to this section is included in a
39 merger agreement, the provisions of this section shall apply, except

1 that any provision for cancellation or change of shares shall be in
2 the merger agreement rather than in the amendment of the articles.

3 (e) Notwithstanding subdivision (c), if a social purpose
4 corporation is a mutual water company within the meaning of
5 Section 2705 of the Public Utilities Code and under the terms of
6 the status change each outstanding share is converted to a
7 membership of a nonprofit mutual benefit corporation, an
8 amendment to change to a nonprofit mutual benefit corporation
9 shall be approved by the outstanding shares of each class regardless
10 of limitations or restrictions on their voting rights.

11 SEC. 49. Section 3002 of the Corporations Code is amended
12 to read:

13 3002. (a) A social purpose corporation may, by amendment
14 of its articles pursuant to this section, change its status to that of
15 a business corporation.

16 (b) The amendment of the articles to change status to a business
17 corporation shall revise the statement of purpose to delete any
18 provisions in the articles that are permitted by Section 2602, but
19 that are not permitted to be in the articles of a domestic corporation.

20 (c) If shares have been issued, an amendment to change status
21 to a business corporation shall be approved by an affirmative vote
22 of at least two-thirds of the outstanding shares of each class, or a
23 greater vote if required in the articles, regardless of whether that
24 class is entitled to vote thereon by the provisions of the articles.
25 If the status change is approved, shareholders with dissenting
26 shares, as defined in subdivision (b) of Section 1300, may exercise
27 dissenters' rights pursuant to Section 3305 and Chapter 13
28 (commencing with Section 1300) of Division 1.

29 (d) If an amendment pursuant to this section is included in a
30 merger agreement, the provisions of this section shall apply, except
31 that any provision for cancellation or change of shares shall be in
32 the merger agreement rather than in the amendment of the articles.

33 SEC. 50. Section 3100 of the Corporations Code is amended
34 to read:

35 3100. (a) A social purpose corporation may sell, lease, convey,
36 exchange, transfer, or otherwise dispose of all or substantially all
37 of its assets when the principal terms of the transaction are
38 approved by the board and are approved by an affirmative vote of
39 at least two-thirds of the outstanding shares of each class, or a
40 greater vote if required in the articles, regardless of whether that

1 class is entitled to vote thereon by the provisions of the articles,
2 either before or after approval by the board and before the
3 transaction. A transaction constituting a reorganization shall be
4 subject to Chapter 12 (commencing with Section 1200) of Division
5 1 and Chapter 10 (commencing with Section 3400) of this division
6 and shall not be subject to this section, other than subdivision (d).
7 A transaction constituting a conversion shall be subject to Chapter
8 11.5 (commencing with Section 1150) of Division 1 and Chapter
9 9 (commencing with Section 3300) of this division and shall not
10 be subject to this section.

11 (b) Notwithstanding approval of two-thirds of the outstanding
12 shares, the board may abandon the proposed transaction without
13 further action by the shareholders, subject to the contractual rights,
14 if any, of third parties.

15 (c) The sale, lease, conveyance, exchange, transfer, or other
16 disposition may be made upon those terms and conditions and for
17 that consideration as the board may deem in the best interests of
18 the social purpose corporation. The consideration may be money,
19 securities, or other property.

20 (d) If the acquiring party in a transaction pursuant to subdivision
21 (a) or subdivision (g) of Section 2001 is in control of or under
22 common control with the disposing social purpose corporation,
23 the principal terms of the sale shall be approved by at least 90
24 percent of the voting power of the disposing social purpose
25 corporation unless the disposition is to a domestic or foreign other
26 business entity or social purpose corporation, the articles of
27 incorporation of which specify materially the same purposes, in
28 consideration of the nonredeemable common shares or
29 nonredeemable equity securities of the acquiring party or its parent.

30 (e) Subdivision (d) shall not apply to a transaction if the
31 Commissioner of Corporations, the Commissioner of Financial
32 Institutions, the Insurance Commissioner, or the Public Utilities
33 Commission has approved the terms and conditions of the
34 transaction and the fairness of those terms and conditions pursuant
35 to Section 25142, Section 696.5 of the Financial Code, Section
36 838.5 of the Insurance Code, or Section 822 of the Public Utilities
37 Code.

38 SEC. 51. Section 3200 of the Corporations Code is amended
39 to read:

1 3200. If any disappearing social purpose corporation in a
2 merger is a close social purpose corporation and the surviving
3 social purpose corporation is not a close social purpose corporation,
4 the merger shall be approved by an affirmative vote of at least
5 two-thirds of the outstanding shares of each class, or a greater vote
6 if required in the articles, regardless of whether that class is entitled
7 to vote thereon by the provisions of the articles, of the disappearing
8 social purpose corporation. The articles may provide for a lesser
9 vote, but not less than a majority of the outstanding shares of each
10 class.

11 SEC. 52. Section 3201 of the Corporations Code is amended
12 to read:

13 3201. If any disappearing corporation in a merger is a social
14 purpose corporation and the surviving entity is not a social purpose
15 corporation, or is a social purpose corporation the articles of
16 incorporation of which set forth materially different purposes, the
17 merger shall be approved by an affirmative vote of at least
18 two-thirds of the outstanding shares of each class, or a greater vote
19 if required in the articles, regardless of whether that class is entitled
20 to vote thereon by the provisions of the articles, of the disappearing
21 social purpose corporation. If the merger is approved, shareholders
22 with dissenting shares, as defined in subdivision (b) of Section
23 1300, may exercise dissenters' rights pursuant to Section 3305 and
24 Chapter 13 (commencing with Section 1300) of Division 1.

25 SEC. 53. Section 3202 of the Corporations Code is amended
26 to read:

27 3202. If a disappearing social purpose corporation in a merger
28 is a social purpose corporation governed by this division and the
29 surviving corporation is a nonprofit public benefit corporation, a
30 nonprofit mutual benefit corporation, or a nonprofit religious
31 corporation, the merger shall be approved by all of the outstanding
32 shares of all classes of the disappearing social purpose corporation,
33 regardless of limitations or restrictions on their voting rights,
34 notwithstanding any provision of Chapter 10 (commencing with
35 Section 3400).

36 SEC. 54. Section 3203 of the Corporations Code is amended
37 to read:

38 3203. (a) Any one or more social purpose corporations may
39 merge with one or more other business entities. One or more
40 domestic social purpose corporations not organized under this

1 division and one or more foreign corporations may be parties to
2 the merger. Notwithstanding this section, the merger of any number
3 of social purpose corporations with any number of other business
4 entities may be effected only if:

5 (1) In a merger in which a domestic social purpose corporation
6 not organized under this division or a domestic other business
7 entity is a party, it is authorized by the laws under which it is
8 organized to effect the merger.

9 (2) In a merger in which a foreign corporation is a party, it is
10 authorized by the laws under which it is organized to effect the
11 merger.

12 (3) In a merger in which a foreign other business entity is a
13 party, it is authorized by the laws under which it is organized to
14 effect the merger.

15 (b) Each social purpose corporation and each other party that
16 desires to merge shall approve, and shall be a party to, an
17 agreement of merger. Other persons, including a parent party, may
18 be parties to the agreement of merger. The board of each social
19 purpose corporation that desires to merge, and, if required, the
20 shareholders, shall approve the agreement of merger. The
21 agreement of merger shall be approved on behalf of each party by
22 those persons required to approve the merger by the laws under
23 which it is organized. The agreement of merger shall state:

24 (1) The terms and conditions of the merger.

25 (2) The name and place of incorporation or organization of each
26 party to the merger and the identity of the surviving party.

27 (3) The amendments, if any, subject to Sections 900, 902, 907,
28 and 3002 to the articles of the surviving social purpose corporation,
29 if applicable, to be effected by the merger. If any amendment
30 changes the name of the surviving social purpose corporation, if
31 applicable, the new name may be, subject to subdivision (b) of
32 Section 2601, the same as or similar to the name of a disappearing
33 party to the merger.

34 (4) The manner of converting the shares of each constituent
35 social purpose corporation into shares, interests, or other securities
36 of the surviving party. If any shares of any constituent social
37 purpose corporation are not to be converted solely into shares,
38 interests, or other securities of the surviving party, the agreement
39 of merger shall state (A) the cash, rights, securities, or other
40 property that the holders of those shares are to receive in exchange

1 for the shares, which cash, rights, securities, or other property may
2 be in addition to or in lieu of shares, interests, or other securities
3 of the surviving party, or (B) that the shares are canceled without
4 consideration.

5 (5) Any other details or provisions required by the laws under
6 which any party to the merger is organized, including, if a domestic
7 corporation is a party to the merger, Section 3203, if a public
8 benefit corporation or a religious corporation is a party to the
9 merger, Section 6019.1, if a mutual benefit corporation is a party
10 to the merger, Section 8019.1, if a consumer cooperative
11 corporation is a party to the merger, Section 12540.1, if a domestic
12 limited partnership is a party to the merger, Section 15911.12, if
13 a domestic partnership is a party to the merger, Section 16911,
14 and if a domestic limited liability company is a party to the merger,
15 Section 17551.

16 (6) Any other details or provisions as are desired, including,
17 without limitation, a provision for the payment of cash in lieu of
18 fractional shares or for any other arrangement with respect thereto
19 consistent with the provisions of Section 407.

20 (c) Each share of the same class or series of any constituent
21 social purpose corporation, other than the cancellation of shares
22 held by a party to the merger or its parent, or a wholly owned
23 subsidiary of either, in another constituent social purpose
24 corporation, shall, unless all shareholders of the class or series
25 consent and except as provided in Section 407, be treated equally
26 with respect to any distribution of cash, rights, securities, or other
27 property. Notwithstanding paragraph (4) of subdivision (b), the
28 nonredeemable common shares of a constituent social purpose
29 corporation may be converted only into nonredeemable common
30 shares of a surviving social purpose corporation or a parent party
31 or nonredeemable equity securities of a surviving party other than
32 a social purpose corporation if another party to the merger or its
33 parent owns, directly or indirectly, prior to the merger shares of
34 that corporation representing more than 50 percent of the voting
35 power of that social purpose corporation, unless all of the
36 shareholders of the class consent and except as provided in Section
37 407.

38 (d) Notwithstanding its prior approval, an agreement of merger
39 may be amended prior to the filing of the agreement of merger or
40 the certificate of merger, as is applicable, if the amendment is

1 approved by the board of each constituent social purpose
2 corporation and, if the amendment changes any of the principal
3 terms of the agreement, by the outstanding shares, if required by
4 Chapter 10 (commencing with Section 3400), in the same manner
5 as the original agreement of merger. If the agreement of merger
6 as so amended and approved is also approved by each of the other
7 parties to the agreement of merger, the agreement of merger as so
8 amended shall then constitute the agreement of merger.

9 (e) The board of a constituent social purpose corporation may,
10 in its discretion, abandon a merger, subject to the contractual rights,
11 if any, of third parties, including other parties to the agreement of
12 merger, without further approval by the outstanding shares, at any
13 time before the merger is effective.

14 (f) Each constituent social purpose corporation shall sign the
15 agreement of merger by its chairperson of the board, president, or
16 a vice president and also by its secretary or an assistant secretary
17 acting on behalf of their respective corporations.

18 (g) (1) If the surviving party is a domestic social purpose
19 corporation, or if a domestic corporation or a foreign corporation,
20 a public benefit corporation, a mutual benefit corporation, a
21 religious corporation, or a corporation organized under the
22 Consumer Cooperative Corporation Law (Part 2 (commencing
23 with Section 12200) of Division 3) is a party to the merger, after
24 required approvals of the merger by each constituent social purpose
25 corporation through approval of the board and any approval of the
26 outstanding shares required by Chapter 10 (commencing with
27 Section 3400) and by the other parties to the merger, the surviving
28 party shall file a copy of the agreement of merger with an officers'
29 certificate of each constituent domestic social purpose corporation
30 and foreign social purpose corporation attached stating the total
31 number of outstanding shares of each class entitled to vote on the
32 merger, and identifying any other person or persons whose approval
33 is required, that the agreement of merger in the form attached or
34 its principal terms, as required, were approved by that social
35 purpose corporation by a vote of a number of shares of each class
36 that equaled or exceeded the vote required, specifying each class
37 entitled to vote and the percentage vote required of each class and,
38 if applicable, by that other person or persons whose approval is
39 required, or that the merger agreement was entitled to be and was
40 approved by the board alone, as provided in Section 3401, in the

1 case of a social purpose corporation subject to that section. If equity
2 securities of a parent party are to be issued in the merger, the
3 officers' certificate of that controlled party shall state either that
4 no vote of the shareholders of the parent party was required or that
5 the required vote was obtained. In lieu of an officers' certificate,
6 a certificate of merger, on a form prescribed by the Secretary of
7 State, shall be filed for each constituent other business entity. The
8 certificate of merger shall be executed and acknowledged by each
9 domestic constituent limited liability company by all managers of
10 the limited liability company, unless a lesser number is specified
11 in its articles or organization or operating agreement, and by each
12 domestic constituent limited partnership by all general partners,
13 unless a lesser number is provided in its certificate of limited
14 partnership or partnership agreement, and by each domestic
15 constituent general partnership by two partners, unless a lesser
16 number is provided in its partnership agreement, and by each
17 foreign constituent limited liability company by one or more
18 managers and by each foreign constituent general partnership or
19 foreign constituent limited partnership by one or more general
20 partners, and by each constituent reciprocal insurer by the
21 chairperson of the board, president, or vice president, and by the
22 secretary or assistant secretary, or, if a constituent reciprocal insurer
23 has not appointed those officers, by the chairperson of the board,
24 president, or vice president, and by the secretary or assistant
25 secretary of the constituent reciprocal insurer's attorney-in-fact,
26 and by each other party to the merger by those persons required
27 or authorized to execute the certificate of merger by the laws under
28 which that party is organized, specifying for that party the provision
29 of law or other basis for the authority of the signing persons. The
30 certificate of merger shall set forth, if a vote of the shareholders,
31 members, partners, or other holders of interests of the constituent
32 other business entity was required, a statement setting forth the
33 total number of outstanding interests of each class entitled to vote
34 on the merger and that the agreement of merger in the form
35 attached or its principal terms, as required, were approved by a
36 vote of the number of interests of each class that equaled or
37 exceeded the vote required, specifying each class entitled to vote
38 and the percentage vote required of each class, and any other
39 information required to be set forth under the laws under which
40 the constituent other business entity is organized, including, if a

1 domestic limited partnership is a party to the merger, subdivision
2 (a) of Section 15911.14, if a domestic partnership is a party to the
3 merger, subdivision (b) of Section 16915, and, if a domestic limited
4 liability company is a party to the merger, subdivision (a) of
5 Section 17552. The certificate of merger for each constituent
6 foreign other business entity, if any, shall also set forth the statutory
7 or other basis under which that foreign other business entity is
8 authorized by the laws under which it is organized to effect the
9 merger. The merger and any amendment of the articles of the
10 surviving social purpose corporation, if applicable, contained in
11 the agreement of merger shall be effective upon filing of the
12 agreement of merger with an officer's certificate of each constituent
13 domestic corporation and foreign corporation and a certificate of
14 merger for each constituent other business entity, subject to
15 subdivision (c) of Section 110 and subject to the provisions of
16 subdivision (j), and the several parties thereto shall be one entity.
17 If a domestic reciprocal insurer organized after 1974 to provide
18 medical malpractice insurance is a party to the merger, the
19 agreement of merger or certificate of merger shall not be filed until
20 there has been filed the certificate issued by the Insurance
21 Commissioner approving the merger pursuant to Section 1555 of
22 the Insurance Code. The Secretary of State may certify a copy of
23 the agreement of merger separate from the officers' certificates
24 and certificates of merger attached thereto.

25 (2) If the surviving entity is an other business entity, and no
26 public benefit corporation, mutual benefit corporation, religious
27 corporation, or corporation organized under the Consumer
28 Cooperative Corporation Law (Part 2 (commencing with Section
29 12200) of Division 3) is a party to the merger, after required
30 approvals of the merger by each constituent social purpose
31 corporation through approval of the board and any approval of the
32 outstanding shares required by Chapter 10 (commencing with
33 Section 3400) and by the other parties to the merger, the parties
34 to the merger shall file a certificate of merger in the office of, and
35 on a form prescribed by, the Secretary of State. The certificate of
36 merger shall be executed and acknowledged by each constituent
37 domestic and foreign social purpose corporation by its chairperson
38 of the board, president, or a vice president and also by its secretary
39 or an assistant secretary and by each domestic constituent limited
40 liability company by all managers of the limited liability company,

1 unless a lesser number is specified in its articles of organization
2 or operating agreement, and by each domestic constituent limited
3 partnership by all general partners, unless a lesser number is
4 provided in its certificate of limited partnership or partnership
5 agreement, and by each domestic constituent general partnership
6 by two partners, unless a lesser number is provided in its
7 partnership agreement, and by each foreign constituent limited
8 liability company by one or more managers and by each foreign
9 constituent general partnership or foreign constituent limited
10 partnership by one or more general partners, and by each
11 constituent reciprocal insurer by the chairperson of the board,
12 president, or vice president, and by the secretary or assistant
13 secretary, or, if a constituent reciprocal insurer has not appointed
14 those officers, by the chairperson of the board, president, or vice
15 president, and by the secretary or assistant secretary of the
16 constituent reciprocal insurer's attorney-in-fact. The certificate of
17 merger shall be signed by each other party to the merger by those
18 persons required or authorized to execute the certificate of merger
19 by the laws under which that party is organized, specifying for
20 that party the provision of law or other basis for the authority of
21 the signing persons. The certificate of merger shall set forth all of
22 the following:

23 (A) The name, place of incorporation or organization, and the
24 Secretary of State's file number, if any, of each party to the merger,
25 separately identifying the disappearing parties and the surviving
26 party.

27 (B) If the approval of the outstanding shares of a constituent
28 social purpose corporation was required by Chapter 10
29 (commencing with Section 3400), a statement setting forth the
30 total number of outstanding shares of each class entitled to vote
31 on the merger and that the principal terms of the agreement of
32 merger were approved by a vote of the number of shares of each
33 class entitled to vote and the percentage vote required of each
34 class.

35 (C) The future effective date or time, not more than 90 days
36 subsequent to the date of filing of the merger, if the merger is not
37 to be effective upon the filing of the certificate of merger with the
38 Secretary of State.

39 (D) A statement, by each party to the merger that is a domestic
40 corporation not organized under this division, a foreign corporation

1 or foreign other business entity, or an other business entity, of the
2 statutory or other basis under which that party is authorized by the
3 laws under which it is organized to effect the merger.

4 (E) Any other information required to be stated in the certificate
5 of merger by the laws under which each respective party to the
6 merger is organized, including, if a domestic limited liability
7 company is a party to the merger, subdivision (a) of Section 17552,
8 if a domestic partnership is a party to the merger, subdivision (b)
9 of Section 16915, and, if a domestic limited partnership is a party
10 to the merger, subdivision (a) of Section 15911.14.

11 (F) Any other details or provisions that may be desired.

12 Unless a future effective date or time is provided in a certificate
13 of merger, in which event the merger shall be effective at that
14 future effective date or time, a merger shall be effective upon the
15 filing of the certificate of merger with the Secretary of State and
16 the several parties thereto shall be one entity. The surviving other
17 business entity shall keep a copy of the agreement of merger at its
18 principal place of business which, for purposes of this subdivision,
19 shall be the office referred to in Section 17057 if a domestic limited
20 liability company, at the business address specified in paragraph
21 (5) of subdivision (a) of Section 17552 if a foreign limited liability
22 company, at the office referred to in subdivision (a) of Section
23 16403 if a domestic general partnership, at the business address
24 specified in subdivision (f) of Section 16911 if a foreign
25 partnership, at the office referred to in subdivision (a) of Section
26 15901.14 if a domestic limited partnership, or at the business
27 address specified in paragraph (5) of subdivision (a) of Section
28 15911.14 if a foreign limited partnership. Upon the request of a
29 holder of equity securities of a party to the merger, a person with
30 authority to do so on behalf of the surviving other business entity
31 shall promptly deliver to that holder, a copy of the agreement of
32 merger. A waiver by that holder of the rights provided in the
33 foregoing sentence shall be unenforceable. If a domestic reciprocal
34 insurer organized after 1974 to provide medical malpractice
35 insurance is a party to the merger the agreement of merger or
36 certificate of merger shall not be filed until there has been filed
37 the certificate issued by the Insurance Commissioner approving
38 the merger in accordance with Section 1555 of the Insurance Code.

39 (h) (1) A copy of an agreement of merger certified on or after
40 the effective date by an official having custody thereof has the

1 same force in evidence as the original and, except as against the
2 state, is conclusive evidence of the performance of all conditions
3 precedent to the merger, the existence on the effective date of the
4 surviving party to the merger, and the performance of the
5 conditions necessary to the adoption of any amendment to the
6 articles, if applicable, contained in the agreement of merger.

7 (2) For all purposes for a merger in which the surviving entity
8 is a domestic other business entity and the filing of a certificate of
9 merger is required by paragraph (2) of subdivision (g), a copy of
10 the certificate of merger duly certified by the Secretary of State is
11 conclusive evidence of the merger of the constituent corporations,
12 either by themselves or together with the other parties to the
13 merger, into the surviving other business entity.

14 (i) (1) Upon a merger pursuant to this section, the separate
15 existences of the disappearing parties to the merger cease and the
16 surviving party to the merger shall succeed, without other transfer,
17 to all the rights and property of each of the disappearing parties to
18 the merger and shall be subject to all the debts and liabilities of
19 each in the same manner as if the surviving party to the merger
20 had itself incurred them.

21 (2) All rights of creditors and all liens upon the property of each
22 of the constituent social purpose corporations and other parties to
23 the merger shall be preserved unimpaired, provided that those liens
24 upon property of a disappearing party shall be limited to the
25 property affected thereby immediately prior to the time the merger
26 is effective.

27 (3) Any action or proceeding pending by or against any
28 disappearing social purpose corporation or disappearing party to
29 the merger may be prosecuted to judgment, which shall bind the
30 surviving party, or the surviving party may be proceeded against
31 or substituted in its place.

32 (4) Nothing in this section shall be construed to affect the
33 liability a general partner of a disappearing limited partnership or
34 general partnership may have in connection with the debts and
35 liabilities of the disappearing limited partnership or general
36 partnership existing prior to the time the merger is effective.

37 (j) (1) The merger of domestic social purpose corporations with
38 foreign corporations or foreign other business entities in a merger
39 in which one or more other business entities is a party shall comply
40 with subdivision (a) and this subdivision.

(2) If the surviving party is a domestic social purpose corporation or domestic other business entity, the merger proceedings with respect to that party and any domestic disappearing social purpose corporation shall conform to the provisions of this section. If the surviving party is a foreign corporation or foreign other business entity, then, subject to the requirements of subdivision (c), Section 407, Chapter 10 (commencing with Section 3400), and Chapter 13 (commencing with Section 1300) of Division 1, and, if applicable, corresponding provisions of the Nonprofit Corporation Law (Division 2 (commencing with Section 5002)) or the Consumer Cooperative Corporation Law (Part 2 (commencing with Section 12200) of Division 3), with respect to any domestic constituent corporations, Chapter 13 (commencing with Section 17600) of Title 2.5 with respect to any domestic constituent limited liability companies, Article 6 (commencing with Section 16601) of Chapter 5 of Title 2 with respect to any domestic constituent general partnerships, and Article 11.5 (commencing with Section 15911.20) of Chapter 5.5 of Title 2 with respect to any domestic constituent limited partnerships, the merger proceedings may be in accordance with the laws of the state or place of incorporation or organization of the surviving party.

(3) If the surviving party is a domestic social purpose corporation or domestic other business entity, the certificate of merger or the agreement of merger with attachments shall be filed as provided in subdivision (g) and thereupon, subject to subdivision (c) of Section 110 or paragraph (2) of subdivision (g), as applicable, the merger shall be effective as to each domestic constituent social purpose corporation and domestic constituent other business entity.

(4) If the surviving party is a foreign corporation or foreign other business entity, the merger shall become effective in accordance with the law of the jurisdiction in which the surviving party is organized, but, except as provided in paragraph (5), the merger shall be effective as to any domestic disappearing social purpose corporation as of the time of effectiveness in the foreign jurisdiction upon the filing in this state of a copy of the agreement of merger with an officers' certificate of each constituent foreign and domestic social purpose corporation and a certificate of merger of each constituent other business entity attached, which officers' certificates and certificates of merger shall conform to the

requirements of paragraph (1) of subdivision (g). If one or more domestic other business entities is a disappearing party in a merger pursuant to this subdivision in which a foreign other business entity is the surviving entity, a certificate of merger required by the laws under which that domestic other business entity is organized, including subdivision (a) of Section 15911.14, subdivision (b) of Section 16915, or subdivision (a) of Section 17552, as is applicable, shall also be filed at the same time as the filing of the agreement of merger.

(5) If the date of the filing in this state pursuant to this subdivision is more than six months after the time of the effectiveness in the foreign jurisdiction, or if the powers of a domestic disappearing social purpose corporation are suspended at the time of effectiveness in the foreign jurisdiction, the merger shall be effective as to the domestic disappearing social purpose corporation as of the date of filing in this state.

(6) In a merger described in paragraph (3) or (4), each foreign disappearing social purpose corporation that is qualified for the transaction of intrastate business shall by virtue of the filing pursuant to this subdivision, subject to subdivision (c) of Section 110, automatically surrender its right to transact intrastate business in this state. The filing of the agreement of merger or certificate of merger, as is applicable, pursuant to this subdivision, by a disappearing foreign other business entity registered for the transaction of intrastate business in this state shall, by virtue of that filing, subject to subdivision (c) of Section 110, automatically cancel the registration for that foreign other business entity, without the necessity of the filing of a certificate of cancellation.

SEC. 55. Section 3300 of the Corporations Code is amended to read:

3300. For purposes of this chapter, the following definitions shall apply:

(a) “Converted social purpose corporation” means a social purpose corporation that results from a conversion of an other business entity or a foreign other business entity or a foreign corporation pursuant to Section 3307.

(b) “Converted entity” means a domestic other business entity that results from a conversion of a social purpose corporation under this chapter.

1 (c) “Converting social purpose corporation” means a social
2 purpose corporation that converts into a domestic other business
3 entity pursuant to this chapter.

4 (d) “Converting entity” means an other business entity or a
5 foreign other business entity or foreign corporation that converts
6 into a social purpose corporation pursuant to Section 3307.

7 (e) “Domestic other business entity” has the meaning provided
8 in Section 167.7.

9 (f) “Foreign other business entity” has the meaning provided in
10 Section 171.07.

11 (g) “Other business entity” has the meaning provided in Section
12 174.5.

13 SEC. 56. Section 3301 of the Corporations Code is amended
14 to read:

15 3301. (a) A social purpose corporation may be converted into
16 a domestic other business entity pursuant to this chapter if, pursuant
17 to the proposed conversion, each of the following conditions is
18 met:

19 (1) Each share of the same class or series of the converting
20 social purpose corporation shall, unless all the shareholders of the
21 class or series consent, be treated equally with respect to any cash,
22 rights, securities, or other property to be received by, or any
23 obligations or restrictions to be imposed on, the holder of that
24 share.

25 (2) The conversion is approved by an affirmative vote of at least
26 two-thirds of the outstanding shares of each class, or a greater vote
27 if required in the articles, regardless of whether that class is entitled
28 to vote thereon by the provisions of the articles.

29 (3) Nonredeemable common shares of the converting social
30 purpose corporation shall be converted only into nonredeemable
31 equity securities of the converted entity unless all of the
32 shareholders of the class consent.

33 (4) Paragraph (1) shall not restrict the ability of the shareholders
34 of a converting social purpose corporation to appoint one or more
35 managers, if the converted entity is a limited liability company,
36 or one or more general partners, if the converted entity is a limited
37 partnership, in the plan of conversion or in the converted entity’s
38 governing documents.

(b) Notwithstanding subdivision (a), the conversion of a social purpose corporation into a domestic other business entity may be effected only if both of the following conditions are met:

(1) The law under which the converted entity will exist expressly permits the formation of that entity pursuant to a conversion.

(2) The social purpose corporation complies with any and all other requirements of any other law that applies to conversion to the converted entity.

SEC. 57. Section 3302 of the Corporations Code is amended to read:

3302. (a) A social purpose corporation that desires to convert to a domestic other business entity shall approve a plan of conversion. The plan of conversion shall state all of the following:

(1) The terms and conditions of the conversion.

(2) The jurisdiction of the organization of the converted entity and of the converting social purpose corporation and the name of the converted entity after conversion.

(3) The manner of converting the shares of each of the shareholders of the converting social purpose corporation into securities of, or interests in, the converted entity.

(4) The provisions of the governing documents for the converted entity, including the articles and bylaws, partnership agreement or limited liability company articles of organization and operating agreement, to which the holders of interests in the converted entity are to be bound.

(5) Any other details or provisions that are required by the laws under which the converted entity is organized, or that are desired by the converting social purpose corporation.

(b) The plan of conversion shall be approved by the board of the converting social purpose corporation, and the principal terms of the plan of the conversion shall be approved by at least two-thirds of the outstanding shares of each class, or a greater vote if required in the articles, regardless of whether that class is entitled to vote thereon by the provisions of the articles of the converting social purpose corporation. The approval of at least two-thirds of the outstanding shares may be given before or after approval by the board. If the plan is approved, shareholders with dissenting shares, as defined in subdivision (b) of Section 1300, may exercise dissenters' rights pursuant to Section 3305 and Chapter 13 (commencing with Section 1300) of Division 1.

1 (c) If the social purpose corporation is converting into a general
2 or limited partnership or into a limited liability company, then in
3 addition to the approval of the shareholders set forth in subdivision
4 (b), the plan of conversion shall be approved by each shareholder
5 who will become a general partner or manager, as applicable, of
6 the converted entity pursuant to the plan of conversion unless the
7 shareholders have dissenters' rights pursuant to Section 3305 and
8 Chapter 13 (commencing with Section 1300) of Division 1.

9 (d) Upon the effectiveness of the conversion, all shareholders
10 of the converting social purpose corporation, except those that
11 exercise dissenters' rights as provided in Section 3305 and Chapter
12 13 (commencing with Section 1300) of Division 1, shall be deemed
13 parties to any agreement or agreements constituting the governing
14 documents for the converted entity adopted as part of the plan of
15 conversion, regardless of whether a shareholder has executed the
16 plan of conversion or those governing documents for the converted
17 entity. Any adoption of governing documents made pursuant
18 thereto shall be effective at the effective time or date of the
19 conversion.

20 (e) Notwithstanding its prior approval by the board and the
21 outstanding shares, or either of them, a plan of conversion may be
22 amended before the conversion takes effect if the amendment is
23 approved by the board and, if it changes any of the principal terms
24 of the plan of conversion, by the shareholders of the converting
25 social purpose corporation in the same manner and to the same
26 extent as was required for approval of the original plan of
27 conversion.

28 (f) A plan of conversion may be abandoned by the board of a
29 converting social purpose corporation, or by the shareholders of
30 a converting social purpose corporation if the abandonment is
31 approved by the outstanding shares, in each case in the same
32 manner as required for approval of the plan of conversion, subject
33 to the contractual rights of third parties, at any time before the
34 conversion is effective.

35 (g) The converted entity shall keep the plan of conversion at
36 the principal place of business of the converted entity if the
37 converted entity is a domestic partnership, or at the office at which
38 records are to be kept under Section 15901.14 if the converted
39 entity is a domestic limited partnership, or at the office at which
40 records are to be kept under Section 17701.13 if the converted

1 entity is a domestic limited liability company. Upon the request
2 of a shareholder of a converting social purpose corporation, the
3 authorized person on behalf of the converted entity shall promptly
4 deliver to the shareholder, at the expense of the converted entity,
5 a copy of the plan of conversion. A waiver by a shareholder of the
6 rights provided in this subdivision shall be unenforceable.

7 SEC. 58. Section 3303 of the Corporations Code is amended
8 to read:

9 3303. (a) After the approval, as provided in Section 3302, of
10 a plan of conversion by the board and the outstanding shares of a
11 social purpose corporation converting into a domestic other
12 business entity, the converting social purpose corporation shall
13 cause the filing of all documents required by law to effect the
14 conversion and create the converted entity, which documents shall
15 include a certificate of conversion or a statement of conversion as
16 required by Section 3304, and the conversion shall thereupon be
17 effective.

18 (b) A copy of the statement of partnership authority, certificate
19 of limited partnership, or articles of organization complying with
20 Section 1155, duly certified by the Secretary of State on or after
21 the effective date, shall be conclusive evidence of the conversion
22 of the social purpose corporation.

23 SEC. 59. Section 3304 of the Corporations Code is amended
24 to read:

25 3304. (a) To convert a social purpose corporation:

26 (1) If the social purpose corporation is converting into a
27 domestic limited partnership, a statement of conversion shall be
28 completed on the certificate of limited partnership for the converted
29 entity.

30 (2) If the social purpose corporation is converting into a
31 domestic partnership, a statement of conversion shall be completed
32 on the statement of partnership authority for the converted entity,
33 or if no statement of partnership authority is filed, then a certificate
34 of conversion shall be filed separately.

35 (3) If the social purpose corporation is converting into a
36 domestic limited liability company, a statement of conversion shall
37 be completed on the articles of organization for the converted
38 entity.

39 (b) Any statement or certificate of conversion of a converting
40 social purpose corporation shall be executed and acknowledged

1 by those officers of the converting social purpose corporation as
2 would be required to sign an officers' certificate, and shall set forth
3 all of the following:

4 (1) The name and the Secretary of State's file number of the
5 converting social purpose corporation.

6 (2) A statement of the total number of outstanding shares of
7 each class entitled to vote on the conversion, that the principal
8 terms of the plan of conversion were approved by a vote of the
9 number of shares of each class which equaled or exceeded the vote
10 required under Section 3602, specifying each class entitled to vote
11 and the percentage vote required of each class.

12 (3) The name, form, and jurisdiction of organization of the
13 converted entity.

14 (c) The certificate of conversion shall be on a form prescribed
15 by the Secretary of State.

16 (d) The filing with the Secretary of State of a statement of
17 conversion on an organizational document or a certificate of
18 conversion as set forth in subdivision (a) shall have the effect of
19 the filing of a certificate of dissolution by the converting social
20 purpose corporation and no converting social purpose corporation
21 that has made the filing is required to file a certificate of election
22 under Section 1901 or a certificate of dissolution under Section
23 1905 as a result of that conversion.

24 (e) Upon the effectiveness of a conversion pursuant to this
25 chapter, a converted entity that is a domestic partnership, domestic
26 limited partnership, or domestic limited liability company shall
27 be deemed to have assumed the liability of the converting social
28 purpose corporation to prepare and file or cause to be prepared
29 and filed all tax and information returns otherwise required of the
30 converting social purpose corporation under the Corporation Tax
31 Law (Part 11 (commencing with Section 23001) of Division 2 of
32 the Revenue and Taxation Code) and to pay any tax liability
33 determined to be due pursuant to that law.

34 SEC. 60. Section 3305 of the Corporations Code is amended
35 to read:

36 3305. The shareholders with dissenting rights, as defined in
37 subdivision (b) of Section 1300, of a converting social purpose
38 corporation shall have all of the rights under Chapter 13
39 (commencing with Section 1300) of Division 1 of the shareholders
40 of a corporation involved in a reorganization requiring the approval

1 of its outstanding shares, and the converting social purpose
2 corporation shall have all of the obligations under Chapter 13
3 (commencing with Section 1300) of Division 1 of a corporation
4 involved in the reorganization. Solely for purposes of applying the
5 provisions of Chapter 13 (commencing with Section 1300) of
6 Division 1, and not for purposes of this chapter, a conversion
7 pursuant to Section 3301 or 3307 shall be deemed to constitute a
8 reorganization.

9 SEC. 61. Section 3307 is added to the Corporations Code, to
10 read:

11 3307. (a) An other business entity or a foreign other business
12 entity or a foreign corporation may be converted into a social
13 purpose corporation pursuant to this chapter only if the converting
14 entity is authorized by the laws under which it is organized to
15 effect the conversion.

16 (b) An other business entity or a foreign other business entity
17 or a foreign corporation that desires to convert into a social purpose
18 corporation shall approve a plan of conversion or other instrument
19 as is required to be approved to effect the conversion pursuant to
20 the laws under which that entity is organized.

21 (c) The conversion of an other business entity or a foreign other
22 business entity or a foreign corporation shall be approved by the
23 number or percentage of the partners, members, shareholders, or
24 other holders of interest of the converting entity that is required
25 by the laws under which that entity is organized, or a greater or
26 lesser percentage as may be set forth in the converting entity's
27 partnership agreement, articles of organization, operating
28 agreement, articles of incorporation, or other governing document
29 in accordance with applicable laws.

30 (d) The conversion by an other business entity or a foreign other
31 business entity or a foreign corporation shall be effective under
32 this chapter upon the filing with the Secretary of State of the
33 articles of incorporation of the converted corporation, containing
34 a statement of conversion that complies with subdivision (e).

35 (e) A statement of conversion of an entity converting into a
36 social purpose corporation pursuant to this chapter shall set forth
37 all of the following:

38 (1) The name, form, and jurisdiction of organization of the
39 converting entity.

1 (2) The Secretary of State's file number, if any, of the converting
2 entity.

3 (3) If the converting entity is a foreign other business entity or
4 a foreign corporation, the statement of conversion shall contain
5 the following:

6 (A) A statement that the converting entity is authorized to effect
7 the conversion by the laws under which it is organized.

8 (B) A statement that the converting entity has approved a plan
9 of conversion or other instrument as is required to be approved to
10 effect the conversion pursuant to the laws under which the
11 converting entity is organized.

12 (C) A statement that the conversion has been approved by the
13 number or percentage of the partners, members, shareholders, or
14 other holders of interest of the converting entity that is required
15 by the laws under which that entity is organized, or a greater or
16 lesser percentage as may be set forth in the converting entity's
17 partnership agreement, articles of organization, operating
18 agreement, articles of incorporation, or other governing document
19 in accordance with applicable laws.

20 (f) The filing with the Secretary of State of articles of
21 incorporation containing a statement pursuant to subdivision (e)
22 shall have the effect of the filing of a certificate of cancellation by
23 a converting foreign limited liability company or foreign limited
24 partnership, and no converting foreign limited liability company
25 or foreign limited partnership that has made the filing is required
26 to file a certificate of cancellation under Section 17708.06 or
27 15909.07 as a result of that conversion. If a converting entity is a
28 foreign corporation qualified to transact business in this state, the
29 foreign corporation shall, by virtue of the filing, automatically
30 surrender its right to transact intrastate business.

31 SEC. 62. Section 3400 of the Corporations Code is amended
32 to read:

33 3400. A reorganization or a share exchange tender offer shall
34 be approved by the board of all of the following:

35 (a) Each constituent social purpose corporation in a merger
36 reorganization.

37 (b) The acquiring social purpose corporation in an exchange
38 reorganization.

1 (c) The acquiring social purpose corporation and the social
2 purpose corporation whose property and assets are acquired in a
3 sale-of-assets reorganization.

4 (d) The acquiring social purpose corporation in a share exchange
5 tender offer.

6 (e) The social purpose corporation in control of any constituent
7 or acquiring domestic or foreign social purpose corporation or
8 other business entity under subdivision (a), (b), or (c) and whose
9 equity securities are issued, transferred, or exchanged in the
10 reorganization, hereafter a “parent party.”

11 SEC. 63. Section 3401 of the Corporations Code is amended
12 to read:

13 3401. (a) The principal terms of a reorganization shall be
14 approved by the outstanding shares of each class of each social
15 purpose corporation the approval of whose board is required under
16 Section 3400, except as provided in subdivision (b) and except
17 that, unless otherwise provided in the articles, no approval of any
18 class of outstanding preferred shares of the surviving or acquiring
19 social purpose corporation or parent party shall be required if the
20 rights, preferences, privileges, and restrictions granted to or
21 imposed upon that class of shares remain unchanged, subject to
22 the provisions of subdivision (c). For the purpose of this
23 subdivision, two classes of common shares differing only as to
24 voting rights shall be considered as a single class of shares.

25 (b) No approval of the outstanding shares is required by
26 subdivision (a) if the social purpose corporation, or its shareholders
27 immediately before the reorganization, or both, shall own,
28 immediately after the reorganization, equity securities, other than
29 any warrant or right to subscribe to or purchase those equity
30 securities, of the surviving or acquiring social purpose corporation
31 or a parent party possessing more than five-sixths of the voting
32 power of the surviving or acquiring social purpose corporation or
33 parent party. In making the determination of ownership by the
34 shareholders of a social purpose corporation, immediately after
35 the reorganization, of equity securities pursuant to the preceding
36 sentence, equity securities that they owned immediately before
37 the reorganization as shareholders of another party to the
38 transaction shall be disregarded. For the purpose of this section,
39 the voting power of a social purpose corporation shall be calculated
40 by assuming the conversion of all equity securities convertible,

1 immediately or at some future time, into shares entitled to vote
2 but not assuming the exercise of any warrant or right to subscribe
3 to or purchase those shares.

4 (c) Notwithstanding subdivisions (a) and (b), the principal terms
5 of a reorganization shall be approved by the outstanding shares of
6 the surviving social purpose corporation in a merger reorganization,
7 as otherwise required by Chapter 10 (commencing with Section
8 3400), if any amendment is made to its articles that would
9 otherwise require that approval.

10 (d) Notwithstanding subdivisions (a) and (b), the principal terms
11 of a reorganization shall be approved by the affirmative vote of at
12 least two-thirds of each class, or a greater vote if required in the
13 articles, of the outstanding shares of any class of a social purpose
14 corporation that is a party to a merger or sale-of-assets
15 reorganization if holders of shares of that class receive shares of
16 the surviving or acquiring social purpose corporation or parent
17 party having different rights, preferences, privileges, or restrictions
18 than those surrendered. Shares in a foreign corporation received
19 in exchange for shares in a domestic social purpose corporation
20 shall be deemed to have different rights, preferences, privileges,
21 and restrictions within the meaning of the preceding sentence.

22 (e) Notwithstanding subdivisions (a) and (b), the principal terms
23 of a reorganization shall be approved by the affirmative vote of at
24 least two-thirds of each class, or a greater vote if required in the
25 articles, of the outstanding shares of any social purpose corporation
26 that is a close social purpose corporation if the reorganization
27 would result in the holders receiving shares or other interests of a
28 corporation or other business entity that is not a close social
29 purpose corporation. The articles may provide for a lesser vote,
30 but not less than a majority of the outstanding shares of each class.

31 (f) Notwithstanding subdivisions (a) and (b), the principal terms
32 of a reorganization shall be approved by a vote of at least two-thirds
33 of the outstanding shares of each class, or a greater vote if required
34 in the articles, of a social purpose corporation that is a party to a
35 merger reorganization, regardless of whether that class is entitled
36 to vote thereon by the provisions of the articles, if holders of shares
37 of that class receive interests of a surviving other business entity
38 in the merger that is not a social purpose corporation, or receive
39 interests of a surviving social purpose corporation the articles of

1 incorporation of which specify a materially different purpose as
2 part of the reorganization.

3 (g) Notwithstanding subdivisions (a) and (b), the principal terms
4 of a reorganization shall be approved by all shareholders of any
5 class or series if, as a result of the reorganization, the holders of
6 that class or series become personally liable for any obligations
7 of a party to the reorganization, unless all holders of that class or
8 series have the dissenters' rights provided in Chapter 13
9 (commencing with Section 1300) of Division 1.

10 (h) Any approval required by this section may be given before
11 or after the approval by the board. Notwithstanding approval
12 required by this section, the board may abandon the proposed
13 reorganization without further action by the shareholders, subject
14 to the contractual rights, if any, of third parties.

15 SEC. 64. Section 3500 of the Corporations Code is amended
16 to read:

17 3500. (a) The board of a social purpose corporation shall cause
18 an annual report to be sent to the shareholders not later than 120
19 days after the close of the fiscal year. The annual report shall
20 contain (1) a balance sheet as of the end of that fiscal year and an
21 income statement and a statement of cashflows for that fiscal year,
22 accompanied by any report thereon of independent accountants
23 or, if there is no report, the certificate of an authorized officer of
24 the social purpose corporation that the statements were prepared
25 without audit from the books and records of the corporation, and
26 (2) the information required by subdivision (b).

27 (b) The board shall cause to be provided with the annual report,
28 a management discussion and analysis (special purpose MD&A)
29 concerning the social purpose corporation's stated purpose or
30 purposes as set forth in its articles pursuant to paragraph (2) of
31 subdivision (b) of Section 2602, and, to the extent consistent with
32 reasonable confidentiality requirements, shall cause the special
33 purpose MD&A to be made publicly available by posting it on the
34 social purpose corporation's Internet Web site or providing it
35 through similar electronic means. The special purpose MD&A
36 shall include the information specified in this subdivision and any
37 other information that the social purpose corporation's officers
38 and directors believe to be reasonably necessary or appropriate to
39 an understanding of the social purpose corporation's efforts in

1 connection with its special purpose or purposes. The special
2 purpose MD&A shall also include the following information:

3 (1) Identification and discussion of the overall objectives of the
4 social purpose corporation relating to its special purpose or
5 purposes, and an identification and explanation of any changes
6 made in those special purpose objectives during the fiscal year.

7 (2) Identification and discussion of the material actions taken
8 by the social purpose corporation during the fiscal year to achieve
9 its special purpose objectives, the impact of those actions, including
10 the causal relationships between the actions and the reported
11 outcomes, and the extent to which those actions achieved the
12 special purpose objectives for the fiscal year.

13 (3) Identification and discussion of material actions, including
14 the intended impact of those actions, that the social purpose
15 corporation expects to take in the short term and long term with
16 respect to achievement of its special purpose objectives.

17 (4) A description of the process for selecting, and an
18 identification and description of, the financial, operating, and other
19 measures used by the social purpose corporation during the fiscal
20 year for evaluating its performance in achieving its special purpose
21 objectives, including an explanation of why the social purpose
22 corporation selected those measures and identification and
23 discussion of the nature and rationale for any material changes in
24 those measures made during the fiscal year.

25 (5) Identification and discussion of any material operating and
26 capital expenditures incurred by the social purpose corporation
27 during the fiscal year in furtherance of achieving the special
28 purpose objectives, a good faith estimate of any additional material
29 operating or capital expenditures the social purpose corporation
30 expects to incur over the next three fiscal years in order to achieve
31 its special purpose objectives, and other material expenditures of
32 resources incurred by the social purpose corporation during the
33 fiscal year, including employee time, in furtherance of achieving
34 the special purpose objectives, including a discussion of the extent
35 to which that capital or use of other resources serves purposes
36 other than and in addition to furthering the achievement of the
37 special purpose objectives.

38 (c) Except as may otherwise be excused pursuant to subdivision
39 (h) of Section 1501.5, the reports specified in subdivisions (a) and
40 (b) shall be sent to the shareholders at least 15 days, or, if sent by

1 bulk mail, 35 days, prior to the annual meeting of shareholders to
2 be held during the next fiscal year. This requirement shall not limit
3 the requirement for holding an annual meeting as required by
4 Section 600.

5 (d) If no annual report for the last fiscal year has been sent to
6 shareholders, the social purpose corporation shall, upon the written
7 request of any shareholder made more than 120 days after the end
8 of that fiscal year, deliver or mail to the person making the request
9 within 30 days following the request, the statements required by
10 subdivisions (a) and (b) for that fiscal year.

11 (e) A shareholder or shareholders holding at least 5 percent of
12 the outstanding shares of any class of a social purpose corporation
13 may make a written request to the social purpose corporation for
14 an income statement of the social purpose corporation for the
15 three-month, six-month, or nine-month period of the current fiscal
16 year ended more than 30 days prior to the date of the request and
17 a balance sheet of the social purpose corporation as at the end of
18 that period and, in addition, if no annual report for the most recent
19 fiscal year has been sent to the shareholders, the statements referred
20 to in subdivisions (a) and (b) relating to that fiscal year. The
21 statements shall be delivered or mailed to the person making the
22 request within 30 days following the request. A copy of the
23 statements shall be kept on file in the principal office of the social
24 purpose corporation for 12 months and shall be exhibited at all
25 reasonable times to any shareholder demanding an examination
26 of the statements or a copy shall be mailed to the shareholder. The
27 quarterly income statements and balance sheets referred to in this
28 subdivision shall be accompanied by the report thereon, if any, of
29 any independent accountants engaged by the social purpose
30 corporation or the certificate of an authorized officer of the social
31 purpose corporation that the financial statements were prepared
32 without audit from the books and records of the social purpose
33 corporation.

34 SEC. 65. Section 3501 of the Corporations Code is amended
35 to read:

36 3501. (a) The board shall cause a special purpose current report
37 to be sent to the shareholders not later than 45 days following the
38 occurrence of any one or more of the events specified in
39 subdivision (b) or (c), and, to the extent consistent with reasonable
40 confidentiality requirements, shall cause the special purpose current

1 report to be made publicly available by posting it on the social
2 purpose corporation's Internet Web site or providing it through
3 similar electronic means.

4 (b) Unless previously reported in the most recent annual report,
5 the special purpose current report shall identify and discuss, in
6 reasonable detail, any expenditure or group of related or planned
7 expenditures, excluding compensation of officers and directors,
8 made in furtherance of the special purpose objectives, whether an
9 operating expenditure, a capital expenditure, or some other
10 expenditure of corporate resources, including, but not limited to,
11 employee time, whether the expenditure was direct or indirect,
12 and whether the expenditure was categorized as overhead or
13 otherwise where the expenditure has or is likely to have a material
14 adverse impact on the social purpose corporation's results of
15 operations or financial condition for a quarterly or annual fiscal
16 period.

17 (c) Unless previously reported in the most recent annual report,
18 the special purpose current report shall identify and discuss, in
19 reasonable detail, any decision by the board or action by
20 management to do either of the following:

21 (1) Withhold expenditures or a group of related or planned
22 expenditures, whether temporarily or permanently, that were to
23 have been made in furtherance of the special purpose as
24 contemplated in the most recent annual report, whether those
25 planned expenditures were an operating expenditure, a capital
26 expenditure, or some other expenditure of corporate resources,
27 including, but not limited to, employee time, whether the planned
28 expenditure was direct or indirect, and whether the planned
29 expenditure to be made would have been categorized as overhead
30 or otherwise, in any case, where the planned expenditure was likely
31 to have had a material positive impact on the social purpose
32 corporation's impact in furtherance of its special purpose
33 objectives, as contemplated in the most recent annual report.

34 (2) Determine that the special purpose has been satisfied or
35 should no longer be pursued, whether temporarily or permanently.

36 SEC. 66. Section 3502 of the Corporations Code is amended
37 to read:

38 3502. (a) Nothing contained in subdivision (b) of Section 3500
39 or Section 3501 shall require a detailing or itemization of every
40 relevant expenditure incurred, or planned or action taken or

1 planned, by the corporation. Management and the board shall use
2 their discretion in providing that information, including the
3 reasonable detail that a reasonable investor would consider
4 important in understanding the corporation's objectives, actions,
5 impacts, measures, rationale, and results of operations as they
6 relate to the nature and achievement of the special purpose
7 objectives.

8 (b) Where best practices emerge for providing the information
9 required by subdivision (b) of Section 3500 or Section 3501, use
10 of those best practices shall create a presumption that the social
11 purpose corporation caused all the information required by those
12 provisions to be provided. This presumption can only be rebutted
13 by showing that the reporting contained either a misstatement of
14 a material fact or omission of a material fact.

15 (c) Notwithstanding subdivision (b) of Section 3500 and Section
16 3501, under no circumstances shall the social purpose corporation
17 be required to provide information that would result in a violation
18 of state or federal securities laws or other applicable laws.

19 (d) The social purpose corporation and its officers and directors
20 are expressly excluded from liability for any and all forward
21 looking statements supplied in the report required by subdivision
22 (b) of Section 3500 and Section 3501, so long as those statements
23 are supplied in good faith. Statements are deemed to be forward
24 looking as that term is defined in the federal securities laws.

25 (e) The special purpose MD&A and any special purpose current
26 report shall be written in plain English and shall be provided in an
27 efficient and understandable manner, avoiding repetition and
28 disclosure of immaterial information.

29 (f) Unless otherwise provided by the articles or bylaws, and if
30 approved by the board of directors, the reports specified in Sections
31 3500 and 3501 and any accompanying material sent pursuant to
32 this section may be sent by electronic transmission by the
33 corporation.

34 (g) The financial statements of any social purpose corporation
35 with fewer than 100 holders of record of its shares, determined as
36 provided in Section 605, required to be furnished by Sections 3500
37 and 3501 are not required to be prepared in conformity with
38 generally accepted accounting principles if they reasonably set
39 forth the assets and liabilities and the income and expense of the

1 social purpose corporation and disclose the accounting basis used
2 in their preparation.

3 (h) The requirements described in Section 3500 shall be satisfied
4 if a corporation with an outstanding class of securities registered
5 under Section 12 of the Securities Exchange Act of 1934 both
6 complies with Section 240.14a-16 of Title 17 of the Code of
7 Federal Regulations, as amended from time to time, with respect
8 to the obligation of a corporation to furnish an annual report to
9 shareholders pursuant to Section 240.14a-3(b) of Title 17 of the
10 Code of Federal Regulations, and includes the information required
11 by subdivision (b) of Section 3500 in the annual report.

12 (i) The requirements described in Section 3501 shall be satisfied
13 if a corporation with an outstanding class of securities registered
14 under Section 12 of the Securities Exchange Act of 1934 both
15 complies with Section 240.13a-13 of Title 17 of the Code of
16 Federal Regulations, as amended from time to time, with respect
17 to the obligation of a corporation to furnish a quarterly report to
18 shareholders, and includes the information required by subdivision
19 (b) of Section 3501 in the quarterly report.

20 (j) In addition to the penalties provided for in this division, the
21 superior court of the proper county shall enforce the duty of making
22 and mailing or delivering the information and financial statements
23 required by Sections 3500 and 3501 and, for good cause shown,
24 may extend the time therefor.

25 (k) In any action or proceeding with respect to Section 3500 or
26 3501, if the court finds the failure of the social purpose corporation
27 to comply with the requirements of those sections to have been
28 without justification, the court may award an amount sufficient to
29 reimburse the shareholder for the reasonable expenses incurred by
30 the shareholder, including attorney's fees, in connection with the
31 action or proceeding.

32 (l) Section 3500 and Section 3501 apply to any domestic social
33 purpose corporation and also to a foreign social purpose
34 corporation having its principal executive office in this state or
35 customarily holding meetings of its board in this state.

36 (m) All reports and notices required by Section 3500 and Section
37 3501 shall be maintained by the social purpose corporation, in an
38 electronic form for a period of not less than 10 years.

39 SEC. 67. Section 3503 of the Corporations Code is amended
40 to read:

1 3503. Any officers, directors, employees, or agents of a social
2 purpose corporation who do any of the following shall be liable
3 jointly and severally for all the damages resulting therefrom to the
4 social purpose corporation or any person injured by those actions
5 who relied on those actions or to both:

6 (a) Make, issue, deliver, or publish any prospectus, report,
7 including the reports required pursuant to Sections 3500 and 3501,
8 circular, certificate, financial statement, balance sheet, public
9 notice, or document respecting the social purpose corporation or
10 its shares, assets, liabilities, capital, dividends, business, earnings,
11 or accounts which is false in any material respect, knowing it to
12 be false, or participate in the making, issuance, delivery, or
13 publication thereof with knowledge that the same is false in a
14 material respect.

15 (b) Make or cause to be made in the books, minutes, records,
16 or accounts of a social purpose corporation any entry that is false
17 in any material particular knowing it to be false.

18 (c) Remove, erase, alter, or cancel any entry in any books or
19 records of the social purpose corporation, with intent to deceive.

20 (d) With respect to the reports required pursuant to subdivision
21 (b) of Section 3500 and Section 3501, omit to state any material
22 fact necessary in order to make the statements contained therein,
23 in light of the circumstances under which those statements were
24 made, not misleading in a material respect, knowing the omission
25 to be misleading.

26 SEC. 68. Section 5813.5 of the Corporations Code is amended
27 to read:

28 5813.5. (a) A public benefit corporation may amend its articles
29 to change its status to that of a mutual benefit corporation, a social
30 purpose corporation, a religious corporation, a business corporation,
31 or a cooperative corporation by complying with this section and
32 the other sections of this chapter.

33 The Secretary of State shall notify the Franchise Tax Board, in
34 the manner and at the times agreed upon by the Secretary of State
35 and the Franchise Tax Board, of any amendments to a public
36 benefit corporation's articles.

37 (b) If the public benefit corporation has any assets, an
38 amendment to change its status to a mutual benefit corporation,
39 social purpose corporation, or cooperative corporation shall be
40 approved in advance in writing by the Attorney General. If the

1 public benefit corporation has no assets, the Attorney General shall
2 be given a copy of the amendment at least 20 days before the
3 amendment is filed.

4 (c) Amended articles authorized by this section shall include
5 the provisions which would have been required (other than the
6 initial street address and initial mailing address of the corporation
7 and the name of the initial agent for service of process if a
8 statement has been filed pursuant to Section 6210), and may in
9 addition only include those provisions which would have been
10 permitted, in original articles filed by the type of corporation
11 (mutual benefit, religious, business, social purpose, or cooperative)
12 into which the public benefit corporation is changing its status.

13 (d) In the case of a change of status to a business corporation,
14 social purpose corporation, or cooperative corporation, if the
15 Franchise Tax Board has issued a determination exempting the
16 corporation from tax as provided in Section 23701 of the Revenue
17 and Taxation Code, the corporation shall be subject to Section
18 23221 of the Revenue and Taxation Code upon filing the certificate
19 of amendment.

20 SEC. 69. Section 7813.5 of the Corporations Code is amended
21 to read:

22 7813.5. (a) A mutual benefit corporation may amend its articles
23 to change its status to that of a public benefit corporation, a
24 religious corporation, a business corporation, a social purpose
25 corporation, or a cooperative corporation by complying with this
26 section and the other sections of this chapter.

27 (b) Except as authorized by Section 7811 or unless the
28 corporation has no members, an amendment to change its status
29 to a public benefit corporation or religious corporation shall: (i)
30 be approved by the members (Section 5034), and the fairness of
31 the amendment to the members shall be approved by the
32 Commissioner of Corporations pursuant to Section 25142; (ii) be
33 approved by the members (Section 5034) in an election conducted
34 by written ballot pursuant to Section 7513 in which no negative
35 votes are cast; or (iii) be approved by 100 percent of the voting
36 power.

37 (c) Amended articles authorized by this section shall include
38 the provisions which would have been required (other than the
39 initial street address and initial mailing address of the corporation
40 and the name of the initial agent for service of process if a

1 statement has been filed pursuant to Section 8210), and may in
2 addition only include those provisions which would have been
3 permitted, in original articles filed by the type of corporation
4 (public benefit, religious, business, social purpose, or cooperative)
5 into which the mutual benefit corporation is changing its status.

6 (d) At the time of filing a certificate of amendment to change
7 status to a public benefit corporation, the Secretary of State shall
8 forward a copy of the filed certificate to the Attorney General.

9 (e) In the case of a change of status to a business corporation,
10 social purpose corporation, or a cooperative corporation, if the
11 Franchise Tax Board has issued a determination exempting the
12 corporation from tax as provided in Section 23701 of the Revenue
13 and Taxation Code, the corporation shall be subject to Section
14 23221 of the Revenue and Taxation Code upon filing the certificate
15 of amendment.

16 SEC. 70. Section 9621 of the Corporations Code is amended
17 to read:

18 9621. (a) A religious corporation may amend its articles to
19 change its status to that of (1), a public benefit corporation, by
20 complying with this section and the other sections of Chapter 8
21 (commencing with Section 5810) of Part 2 (made applicable
22 pursuant to Section 9620) or (2), a mutual benefit corporation,
23 business corporation, a social purpose corporation, or cooperative
24 corporation by complying with Chapter 8 (commencing with
25 Section 5810) of Part 2.

26 (b) Amended articles authorized by this section shall include
27 the provisions which would have been required (other than the
28 initial street address and initial mailing address of the corporation
29 and the name of the initial agent for service of process if a
30 statement has been filed pursuant to Section 6210, made applicable
31 pursuant to Section 9660) and may in addition only include those
32 provisions which would have been permitted, in original articles
33 filed by the type of corporation (public benefit, mutual benefit,
34 business, social purpose, or cooperative) into which the religious
35 corporation is changing its status.

36 SEC. 71. Section 12504 of the Corporations Code is amended
37 to read:

38 12504. (a) A corporation may amend its articles to change its
39 status to that of a nonprofit public benefit corporation, a nonprofit
40 mutual benefit corporation, a nonprofit religious corporation, a

1 business corporation, or a social purpose corporation by complying
2 with this section and the other sections of this chapter.

3 (b) Except as authorized by Section 12501 or unless the
4 corporation has no members, an amendment to change its status
5 to a nonprofit public benefit corporation or a nonprofit religious
6 corporation shall: (1) be approved by the members (Section 12224),
7 and the fairness of the amendment to the members shall be
8 approved by the Commissioner of Corporations pursuant to Section
9 25142; or (2) be approved by the members (Section 12224) in an
10 election conducted by written ballot pursuant to Section 12463 in
11 which no negative votes are cast; or (3) be approved by 100 percent
12 of the voting power.

13 (c) Amended articles authorized by this section shall include
14 the provisions which would have been required (other than the
15 initial street address and initial mailing address of the corporation
16 and the name of the initial agent for service of process if a
17 statement has been filed pursuant to Section 12570), and may in
18 addition only include those provisions which would have been
19 permitted, in original articles filed by the type of corporation
20 (nonprofit public benefit, nonprofit mutual benefit, nonprofit
21 religious, business, or social purpose) into which the corporation
22 is changing its status.

23 (d) At the time of filing a certificate of amendment to change
24 status to a nonprofit public benefit corporation, the Secretary of
25 State shall forward a copy of the filed certificate to the Attorney
26 General.